



China Consumer Sector

Post-pandemic economic recovery supports sector



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China Consumer Sector

Post-pandemic economic recovery supports sector

- Economic recovery supports consumption growth; the low-base effect would also mean an elevated retail sales growth in 1H21 or even beyond
- Online channel becomes an important mode of consumption after the pandemic, presenting opportunities for the sector
- Policy targets to boost rural consumption; rural area consumers showed stronger spending growth momentum than those in urban areas
- **OVERWEIGHT** sector rating; continue to favor industry leaders

Economic recovery to support consumption. China's recovering economy continues to boost the consumer market. Retail sales growth in China in Mar 2021 reached 34.2% YoY (2M21: 33.8% YoY). The low-base effect resulted from COVID-19 is expected to push retail sales growth higher in 1H21 or even beyond.

Online consumption to play a more important role. In 3M21, online retail sales grew by 29.9% YoY. Online retail sales of physical goods expanded by 25.8% YoY, contributing to 21.9% of retail sales. We believe the increasing contribution of online physical retail sales to total retail sales shows the pandemic has shifted more consumption to online channels. Such changes in consumption would provide more opportunities in product development and growth.

Rural consumption in focus. Raising consumption in rural area has been one of the priorities listed in the 2021 Government Work Report. In terms of retail sales, contribution from rural area has been low. Per capita average income and spending growth in rural regions, however, has been growing faster than that in urban area. We believe tapping in the potential of rural area consumption would help sustain a balanced retail sales growth. This means the consumer sector players would need to incorporate strategy that penetrates markets in lower-tier cities and rural areas.

Sector recommendations. As the macroeconomic and industry conditions continue to improve, the outlook for the sector is generally positive. We expect the leading industry players would benefit from the opportunities presented in the post-pandemic economy. Our sector top picks include Anta (2020 HK), WH Group (288 HK), Shuanghui (000895 CH), YUM China (YUMC US/9987 HK), Mengniu (2319 HK), and Nongfu Spring (9633 HK).

Risk factors: 1) Macroeconomic risk; 2) inflation risk; 3) Post-pandemic behavior change; 4) Demographic risk; 5) Prolonged pandemic risk.

Sector Top Picks Valuation Summary

Company	Ticker	Rating	Price	TP	Upside (%)	FY21E P/E(x)	FY22E P/E (x)	FY21E P/B (x)	FY22E P/B (x)	FY21E ROAE(%)	FY22E ROAE(%)
Anta	2020 HK	BUY	HK\$140.5	HK\$155.1	10.39	38.26	27.15	10.76	8.45	31.1	34.9
WH Group	288 HK	BUY	HK\$6.68	HK\$8.40	25.75	7.83	7.25	1.11	0.99	15.1	14.4
Shuanghui	000895 CH	BUY	RMB40.28	RMB44.8	11.22	19.76	16.89	5.39	4.92	27.9	29.7
YUM China	YUMC US	BUY	US\$60.23	US\$73.1	21.42	29.09	23.42	3.79	3.24	13.5	14.9
	9987 HK		HK\$466.0	HK\$567.0	21.9	28.98	23.33	3.78	3.23		
Mengniu	2319 HK	BUY	HK\$45.15	HK\$50.0	10.74	35.27	28.81	4.13	3.70	12.3	13.6
Nongfu Spring	9633 HK	BUY	HK\$38.6	HK\$45.8	18.96	62.71	51.77	27.44	21.74	34.0	33.2

Note: Data as of Apr 14, 2021

Source(s): Bloomberg, ABCI Securities estimates

Sector Report

Apr 16, 2021

OVERWEIGHT

Analyst : Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Key Data

Avg. 21E P/E (x)	27.17
Avg.21E P/B (x)	4.08
Avg.21E Dividend Yield (%)	2.86

Source(s): Bloomberg, ABCI Securities

Sector Performance (%)

	Absolute	Relative*
1-mth	(0.77)	(1.33)
3-mth	(2.83)	(4.25)
6-mth	21.43	4.26

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Note: market data as of Apr 14, 2021

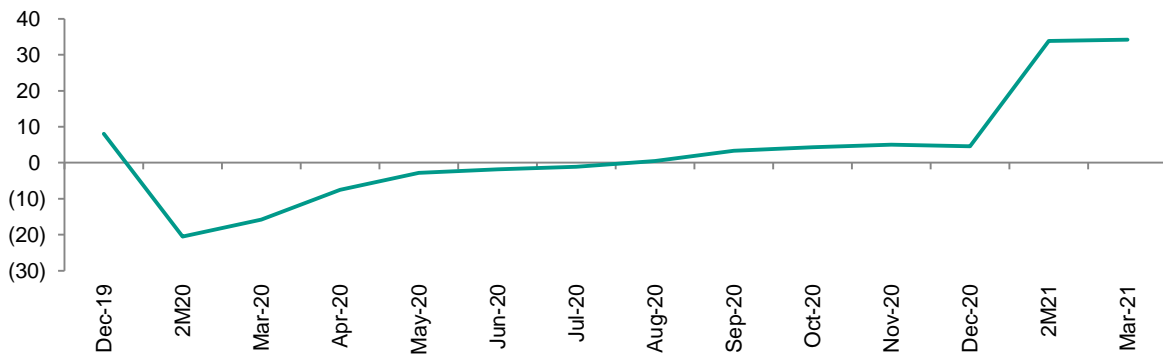
2021 consumer market outlook

Retail sales growth supported by resilient domestic consumer market

Retail sales growth in China in Mar 2021 further increased to 34.2% YoY, (2M21 :33.8% YoY) We believe the jump in retail sales growth was due to the low-base effect in the same period in 2020 and the improving economy. The retail sales performance shows resilience of the domestic consumer market.

As the macroeconomic condition continues to improve in 2021, the consumer market will be supported. Low-base effect in 1H20 will lead to higher-than-usual retail sales growth in 1H21. Such a trend would also be reflected on the performance of companies in the industry, as they experienced varying degree of negative impact from the pandemic in 1H20.

Exhibit 1: National retail sales growth (YoY %)



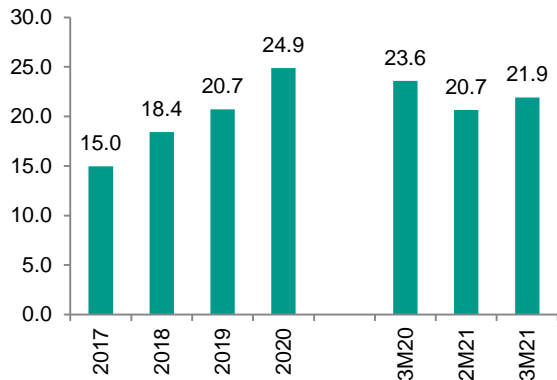
Source(s): NBS, ABCI Securities

Online consumption to play a more important role

In 3M21, online retail sales grew by 29.9% YoY; online retail sales of physical goods increased by 25.8% YoY, contributing to 21.9% of total retail sales. In the past few years, the contribution of online retail sales to total retail sales has been steadily increasing. In 2020, the contribution increase further as the social distancing measures caused by the COVID-19 pandemic diverted more consumption to online channels. We believe the contribution of online physical retail sales would continue to rise, creating new opportunities in product development and customer base expansion.

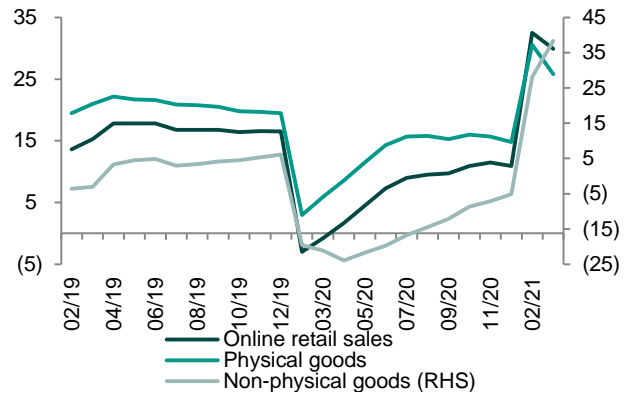


Exhibit 2: Contribution of online retail sales (physical goods) to total retail sales (%)



Source(s): NBS, ABCI Securities

Exhibit 3: Online retail sales growth (YoY %)

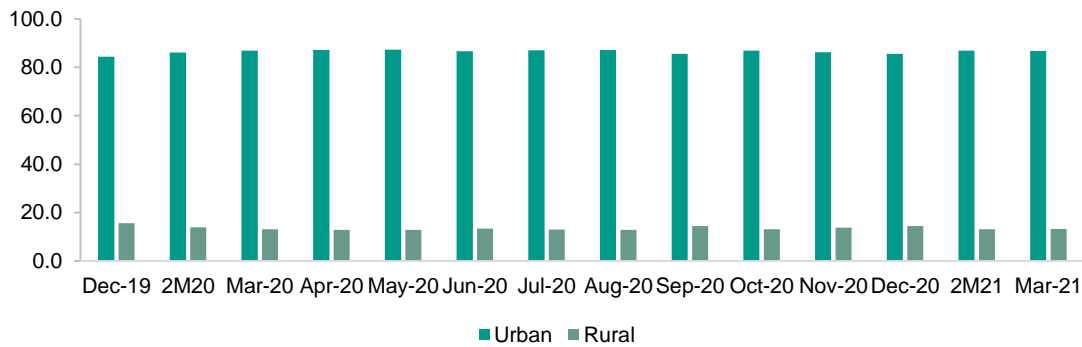


Source(s): NBS, ABCI Securities

Tapping the growth potential of rural consumption

In the Government Work Report released in Mar 2021, one of the policy initiatives regarding consumption is to stimulate rural consumption, which can become the next growth driver. Rural consumption has been much lower than that of the urban one. In Mar 2021, retail sales in rural area contributed to 13.2% of total retail sales. Untapped potential, therefore, is enormous. Per capita average income and spending of rural area residents have been picking up faster than their urban counterparts. By penetrating into the lower-tier cities and rural regions, industry players should be able to tap into new opportunities.

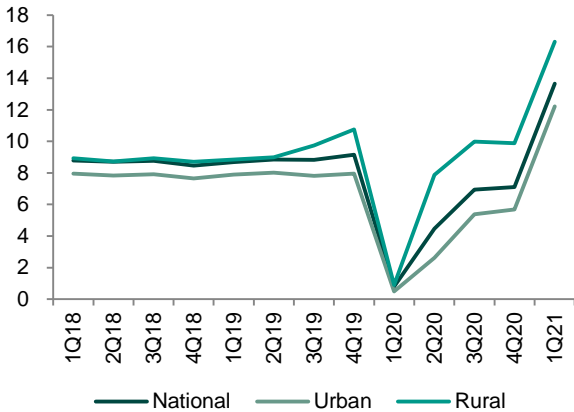
Exhibit 4: Contribution by geographical areas to total retail sales (%)



Source(s): NBS, ABCI Securities

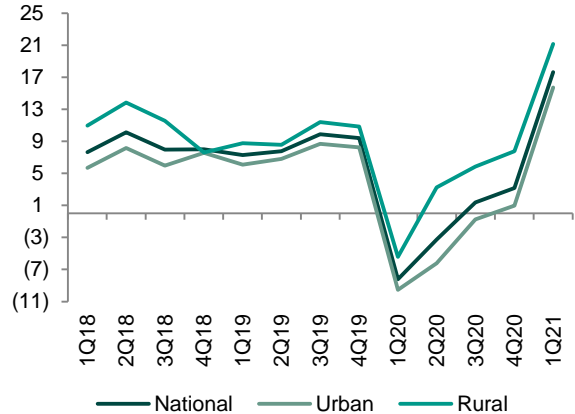


Exhibit 5: Per capita average income in China (YoY %)



Source(s): NBS, ABCI Securities

Exhibit 6: Per capita average spending in China (YoY %)



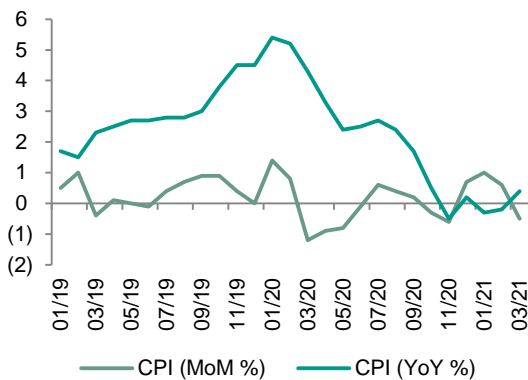
Source(s): NBS, ABCI Securities

Upward pressure on inflation to persist

In the 2021 Government Work Report, CPI is targeted at 3% YoY for 2021, a relatively high inflation target. (2020 target: 3.5% YoY) Official statistics also show potential uptake in inflation. CPI in Mar 2021 increased by 0.4% YoY. In addition, PPI also has been increasing since Nov 2020, providing foundation for the CPI increase in the future.

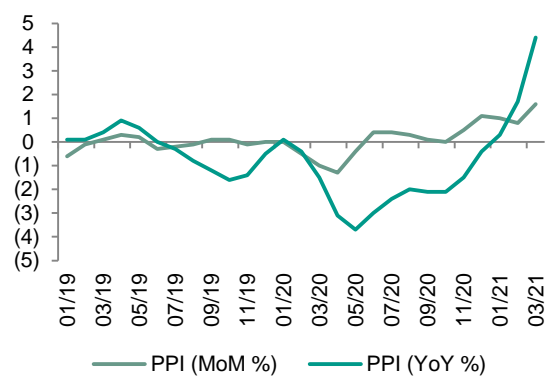
We believe that the major external driver of inflation in 2021 would be resumption of economic activities after the rollout of vaccination globally and gradual fading of the pandemic, which would drive up prices of raw materials and the higher costs would eventually be passed onto consumers in domestic market. In terms of internal driver, pork price remains a concern as a new variant of African Swine Flu has been discovered, which may cause disruptions in the recovery of hog inventory in the short-term.

Exhibit 7: China CPI



Source(s): NBS, ABCI Securities

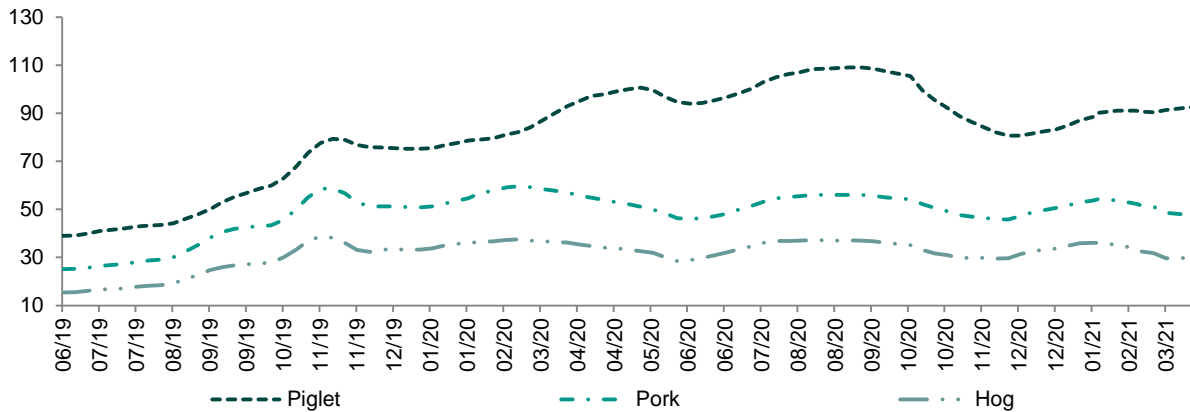
Exhibit 8: China PPI



Source(s): NBS, ABCI Securities



Exhibit 9: Price of piglet, pork, and hog in China (RMB/kg)



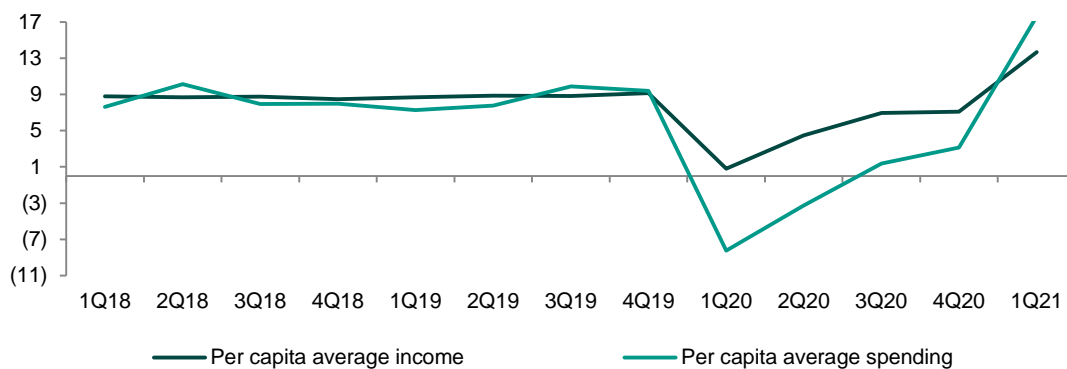
Source(s): NBS, ABCI Securities

Consumer conservatism remains a concern

Despite the continued recovery of the overall economy and retail sales growth, consumer spending has remained conservative after the COVID-19 pandemic. According to the NBS data, per capita average income/spending changed by +0.8% YoY/-8.2% YoY in 1Q20, and improved to +7.1% YoY/+3.2% YoY in 4Q20. In 1Q21, per capita average spending growth reached 17.6% YoY, exceeding per capita average income growth of 13.7% YoY. The 1Q21 per capita average income and spending growth shows initial signs of improvement of consumer sentiment.

We are still cautious on whether such a trend is sustainable, as the decline of spending in 1Q20 was much steeper than that of income and the low-base effect for spending growth is larger in 1Q21. However, we believe that discrepancy of the income and spending growth would further narrow as the macroeconomic condition continues to improve.

Exhibit 10: National per capita average income and spending growth (YoY %)



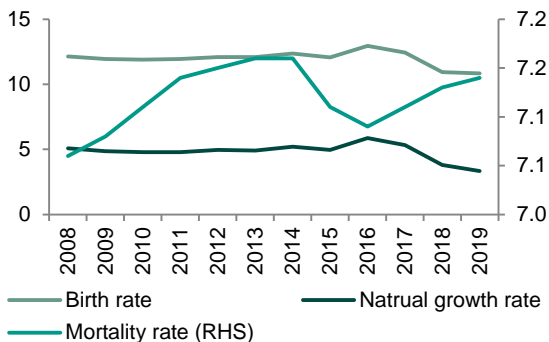
Source(s): NBS, ABCI Securities



Long-term challenge posed by demographic change

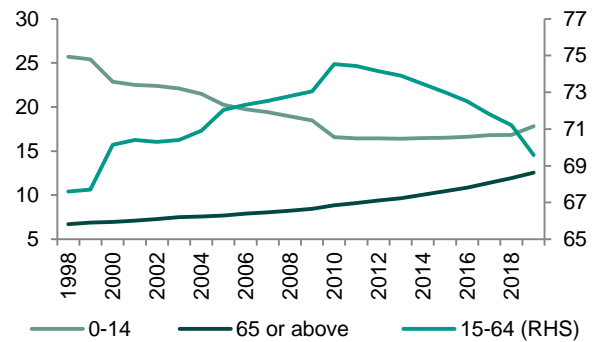
Decline of newborns continues to present challenges to the consumer market in the long run. According to NBS, the number of newborns in 2019 declined by 580k or 3.8% YoY. Preliminary data shows the figure further declined in 2020. According to the Public Security Department, the number of newborns registered for hukou declined from 11.79mn in 2019 to 10.035mn in 2020, down 14.9% YoY. The decline indicates the pandemic baby boom did not materialize and further relaxation of the two-child policy may be needed to slow down or reverse the downtrend. As the number of newborns declines, the child-caring related industry, which includes the infant milk formula business, would be the first to bear the brunt. If the trend continues, the entire consumer sector would suffer as a smaller consumer population may not be conducive for sustained consumption growth.

Exhibit 11: Birth rate, mortality rate, and population natural growth rate (%)



Source(s): NBS, ABCI Securities

Exhibit 12: Age distribution (%)



Source(s): NBS, ABCI Securities

Sector recommendation

As the macroeconomic and industry conditions continue to improve, the outlook for the sector is generally positive. We expect the leading industry players would benefit from the opportunities presented in the post-pandemic economy. Our sector top picks include Anta (2020 HK), WH Group (288 HK), Shuanghui (000895 CH), YUM China (YUMC US/9987 HK), Mengniu (2319 HK), and Nongfu Spring (9633 HK).

Exhibit 13: Sector top picks' valuation comparison

Ticker	Name	Rating	Price	TP	Upside (%)	P/E(x)		P/B (x)		Yield (%)		ROAE (%)		ROAA (%)	
						21E	22E	21E	22E	21E	22E	21E	22E	21E	22E
2020 HK	Anta	BUY	HK\$140.50	HK\$155.1	10.39	38.26	27.15	10.76	8.45	1.0	1.1	31.1	34.9	15.7	19.3
288 HK	WH Group	BUY	HK\$6.68	HK\$8.4	25.75	7.83	7.25	1.11	0.99	3.8	4.1	15.1	14.4	9.6	9.2
000895 CH	Shuanghui	BUY	RMB40.28	RMB44.8	11.22	19.76	16.89	5.39	4.92	3.5	4.1	27.9	29.7	19.6	22.3
YUMC US	Yum China	BUY	US\$60.23	US\$73.1	21.42	29.09	23.42	3.79	3.24	0.8	0.8	13.5	14.9	7.9	8.8
9987 HK	Yum China	BUY	HK\$466.0	HK\$567.0	21.9	28.98	23.33	3.78	3.23	0.8	0.8	13.5	14.9	7.9	8.8
2319 HK	Mengniu	BUY	HK\$45.15	HK\$50.0	10.74	35.27	28.81	4.13	3.70	0.7	0.9	12.3	13.6	5.2	5.8
9633 HK	Nongfu Spring	BUY	HK\$38.60	HK\$45.8	18.96	62.71	51.77	27.44	21.74	0.3	0.4	34.0	33.2	21.1	21.1
Average						31.70	25.52	8.06	6.61	1.6	1.8	22.3	23.4	13.2	14.4

Note: Data as of closing on Apr 14, 2021

Source(s): Bloomberg, ABCI Securities estimates



Risk factors

Macroeconomic risk

Economic growth is likely to further improve as the COVID-19 pandemic is contained globally. However, the effectiveness of the vaccination programs and the uneven pace of recovery among different regions would present challenges and uncertainties.

Inflation risk

As economic activities resume in 2021, overall demand for raw material would rise. Global inflation would increase and affect the domestic economy.

Post-pandemic behavior change

The per capita income and spending growth have not been able to recover to pre-pandemic levels and growth discrepancy continues to exist. We believe more policy support is required to eliminate the gap and restore consumers' confidence.

Demographic risk

The number of newborns is likely to decline in 2020 based on the preliminary data. The downtrend would be detrimental to the consumer sector as the smaller population base means a higher per capita consumption growth will be required to sustain a consistent growth in overall consumption.

Prolonged pandemic risk

Despite the COVID-19 pandemic has been contained in many regions and vaccination programs have been rolled out around the globe, regional outbreaks continue to emerge. We believe that it is possible that regional outbreaks, if not managed effectively, may lead to new rounds of lockdowns and disrupt the pace of reopening of the global economy.

Anta Sports (2020 HK)

1Q21 performance strengthens outlook

- 1Q21 retail sales growth rates of ANTA Brand, FILA Brand and other brands were 40-45% YoY, 75-80% YoY, and 115-120% YoY
- FY20 revenue grew by 4.7% YoY, supported by growth of FILA Brand and other brands; GPM increased from 55.0% in FY19 to 58.2% in FY20; GPM of ANTA Brand and other brands increased from 41.3% and 61.8% in FY19 to 44.7% and 65.9% in FY20; GPM of the FILA Brand declined from 70.4% in FY19 to 69.3% in FY20
- Expect revenue CAGR of 27.7% in FY20-23E
- Maintain BUY; current TP implies 42.23x/29.97x 21E/22E P/E, or 11.88x/9.33x 21E/22E P/B

1Q21 retail sales growth reached new height. In 1Q21, retail sales growth of ANTA Brand was between 40-45% YoY, that of FILA Brand was between 75-80% YoY, and that of other brands was 115-120% YoY. We believe the high growth rates were in a large part due to the low base effect in 1Q20. The changing consumer sentiment towards domestic brands in China in 1Q21 also contributed to the Group's performance.

FY20 revenue grew 4.7% YoY. Revenue of Anta Brand declined 9.7% YoY, while FILA Brand and other brands grew 18.1% YoY and 35.4% YoY. The slow revenue growth was mainly pandemic-related, but the ability to generate growth shows strong execution capability, as the Group was able to compensate with adjustments in product portfolio and sales channels. Its revenue from ecommerce business grew by 53% YoY in FY20.

Margins improved in FY20. GPM increased from 55.0% in FY19 to 58.2% in FY20. GPM of ANTA Brand and other brands increased from 41.3% and 61.8% in FY19 to 44.7% and 65.9% in FY20. Meanwhile, GPM of the FILA Brand declined from 70.4% in FY19 to 69.3% in FY20. The improving overall GPM amid COVID-19 shows effective cost management. However, the Group's NPM (to shareholders of the Company) declined from 15.8% in FY19 to 14.5% in FY20, mainly due to the increase in net finance cost resulted from the issuance of convertible bonds in 2020 and the impact of losses from JV.

Maintain BUY; TP at HK\$ 155.1. The Group's performance in FY20 and 1Q21 shows its strong execution capability despite the COVID-19 pandemic and ability to generate growth through its strategy. The subsiding impact of pandemic in China and overseas would be beneficial to the Group's overall performance in 2021. We project FY20-23E revenue CAGR to be 27.7%, of which ANTA brand and the FILA brand would expand at 14.6% and 36.1% CAGRs. GPM and NPM (to shareholders of the Company) would improve to 60.8% and 20.7% in FY23E from 58.2% and 14.5% in FY20. Maintain **BUY**. We increase our TP due to improving outlook based on 1Q21 performance. Current TP represents 42.23x/29.97x 21E/22E P/E, or 11.88x/9.33x 21E/22E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory risk; 3) Commodity price risk 4) Changing consumer taste in China, 5) Business acquisition risk; 6) Potential resurgence of COVID-19 pandemic.

Results and Valuation

FY ended Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	33,928	35,512	45,194	57,639	74,037
Chg (% YoY)	40.8	4.7	27.3	27.5	28.4
Net Profit (RMB mn)	5,344	5,162	8,351	11,767	15,346
Chg (% YoY)	30.3	(3.4)	61.8	40.9	30.4
Basic EPS (RMB cent)	198.70	191.92	308.92	435.27	567.68
Chg (% YoY)	30.0	(3.4)	61.0	40.9	30.4
P/E (x)	59.48	61.58	38.26	27.15	20.82
BVPS (RMB)	7.43	8.88	10.99	13.98	17.89
P/B (x)	15.90	13.31	10.76	8.45	6.60
DPS (HK cent)	67.00	68.00	117.20	161.07	209.93
Yield (%)	0.5	0.5	1.0	1.1	1.5
ROAA (%)	17.1	12.0	15.7	19.3	21.0
ROAE (%)	29.8	23.4	31.1	34.9	35.6

Source(s): Company, ABCI Securities estimates

Company Report

Apr 16, 2021

Rating: BUY

TP: HK\$ 155.1

Analyst: Paul Pan
 Tel: (852) 2147 8829
 Email: paulpan@abci.com.hk

Share price (HK\$)	140.50
52 wk High/Low (HK\$)	154.3/56.85
Est. share price return	10.39%
Est. dividend yield	0.99%
Est. total return	11.38%
Previous Rating&TP	BUY; HK\$152.1
Previous Report Date	Jan 15, 2021

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	2,703.33
Mkt cap (HK\$m)	379,817.72
3 mth days ADT (HK\$m)	1,058.60
Shareholding (%)	
Anta International	50.81
Anta Holdings	5.95
Anta Investments	4.27

Source(s): Company, Bloomberg

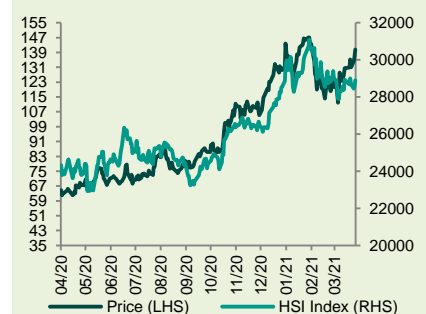
Share performance (%)

	Absolute	Relative*
1-mth	13.77	13.19
3-mth	7.83	6.08
6-mth	63.66	45.97

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note:

- All pricing and market data as of Apr 14, 2021
- RMB/HKD: 1.1888



Exhibit 1: Changes in assumptions, projections, and valuations

As of Dec 31	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
Assumptions					
D/E (%)	48.5	40.3	54.2	45.2	Adjusted based on FY20 performance
D/A (%)	26.9	23.9	27.3	24.8	
Tax rate (%)	28.6	28.9	27.5	27.5	Adjusted based on FY20 rate
Revenue growth (YoY %)	27.3	27.5	24.6	25.9	Adjusted based of FY20 & 1Q21 performance
Valuations					
TP (HK\$)	155.1		152.1		Increase in TP due to improved outlook based on 1Q21 performance
P/E (x)	42.23	29.97	39.99	28.09	
P/B (x)	11.88	9.33	11.00	8.63	

Source(s): The Company, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

FY ends at Dec 31	Current report		Previous report		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue (RMB mn)	45,194	57,639	46,687	58,789	(3.2)	(2.0)
Net profit (to owners of the Company) (RMB mn)	8,351	11,767	8,585	12,225	(2.7)	(3.7)
EPS (RMB cent)	309	435	318	452	(2.7)	(3.7)

Source(s): ABCI Securities estimates



Financial Statements

Consolidated income statement

FY ends at Dec 31 (RMB mn, except per share data)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	33,928	35,512	45,194	57,639	74,037
COGS	(15,269)	(14,861)	(18,702)	(23,074)	(28,997)
Gross profit	18,659	20,651	26,492	34,565	45,040
Other net income/(loss)	1,070	1,389	1,596	2,145	2,685
S&D expenses	(9,721)	(10,766)	(13,652)	(16,595)	(21,237)
Admin expenses	(1,313)	(2,122)	(2,249)	(2,809)	(3,573)
Operating profit	8,695	9,152	12,187	17,306	22,915
Net finance income/(expense)	(53)	(462)	(1,381)	(1,660)	(2,078)
Pretax profit	8,008	8,089	11,966	16,945	22,293
Tax	(2,384)	(2,520)	(3,421)	(4,904)	(6,590)
Net profit	5,624	5,569	8,546	12,041	15,703
- Owners of the company	5,344	5,162	8,351	11,767	15,346
- Minority interest	280	407	194	274	357
Dividend	1,667	1,563	2,665	3,663	4,774
EPS (RMB cent)					
- Basic	199	192	309	435	568
- Diluted	199	189	300	422	551
DPS (HK cent)	67	68	117	161	210

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash and cash equivalent	8,221	15,323	19,764	19,061	26,076
Other ST deposit	4,386	5,024	5,023	4,836	6,642
Trade and other receivables	6,309	6,614	7,193	11,754	12,624
Inventory	4,405	5,486	4,199	7,089	8,234
Current assets	23,321	32,717	36,179	42,740	53,575
PP&E	2,148	2,184	2,938	3,494	4,257
Construction in progress	421	545	618	717	864
Intangible assets	678	1,579	641	618	591
Others	14,651	14,842	16,806	20,159	22,688
Non-current assets	17,898	19,150	21,003	24,987	28,400
Total assets	41,219	51,867	57,182	67,727	81,976
Trade and other payables	7,584	6,915	5,691	5,805	6,396
ST borrowings	2,559	1,968	2,935	3,706	4,881
Others	2,269	2,832	2,928	3,985	5,258
Current liabilities	12,412	11,715	11,554	13,495	16,535
LT debt	6,644	12,456	12,456	12,456	12,456
Deferred tax assets	256	527	194	197	171
Others	846	1,345	1,274	1,496	1,802
Total non-current liabilities	7,746	14,328	13,924	14,150	14,429
Shareholders' equity	20,082	24,013	29,699	37,802	48,375
Minority interest	979	1,811	2,005	2,280	2,636
Total equity	21,061	25,824	31,704	40,082	51,011
Total liabilities and equity	41,219	51,867	57,182	67,727	81,976

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Pretax profit	8,008	8,089	11,966	16,945	22,293
Depreciation & amortization	1,469	2,079	2,081	2,490	3,015
Change in working capital	(802)	(2,212)	(515)	(7,336)	(1,423)
Others	(1,190)	(498)	(4,178)	(5,966)	(7,755)
Cash flow from operating activities	7,485	7,458	9,354	6,133	16,130
CapEx	(1,087)	(424)	(820)	(956)	(763)
Others	(11,978)	(1,499)	(9,253)	(10,717)	(13,271)
Cash flow from investing activities	(13,065)	(1,923)	(10,073)	(11,673)	(14,035)
Bank borrowing	6,436	(3,343)	967	770	1,175
Dividend paid	(1,514)	(1,481)	(2,450)	(3,354)	(4,379)
Others	(252)	6,053	6,658	7,324	8,057
Cash flow from financing activities	4,670	1,229	5,175	4,741	4,853
Net change in cash	(910)	6,764	4,457	(799)	6,948
ForEx effect	(153)	338	(16)	96	66
Cash at the end of FY	8,221	15,323	19,764	19,061	26,076

Source(s): Company, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
Growth (YoY %)					
Revenue	40.8	4.7	27.3	27.5	28.4
- ANTA Brand	21.8	(9.7)	15.4	13.8	14.6
- FILA Brand	73.9	18.1	36.2	36.3	35.8
Gross profit	47.1	10.7	28.3	30.5	30.3
EBIT	52.5	5.3	33.2	42.0	32.4
Net profit (to owners of the company)	30.3	(3.4)	61.8	40.9	30.4
Profitability ratios (%)					
GPM	55.0	58.2	58.6	60.0	60.8
OPM	25.6	25.8	27.0	30.0	31.0
Pretax	23.6	22.8	26.5	29.4	30.1
NPM (to owners of the company)	15.8	14.5	18.5	20.4	20.7
Revenue contribution (%)					
- ANTA Brand	51.4	44.3	40.2	35.9	32.0
- FILA Brand	43.5	49.1	52.6	56.2	59.4
- Other brands	5.0	6.5	7.2	7.9	8.6
Return ratios (%)					
ROAA	17.1	12.0	15.7	19.3	21.0
ROAE	29.8	23.4	31.1	34.9	35.6
Liquidity ratio (x)					
Current ratio	1.88	2.8	3.13	3.17	3.24
Quick ratio	1.52	2.3	2.77	2.64	2.74
Cash ratio	1.02	1.7	2.15	1.77	1.98
Cash conversion cycle (days)					
Days of outstanding receivable	34.4	39.2	41.3	37.6	38.0
Days of inventory on hand	87.2	121.5	94.5	89.3	96.4
Days of outstanding payable	56.8	65.6	55.7	47.5	46.4
CCC	64.8	95.1	80.1	79.3	88.0
Leverage ratios (%)					
Total debt/Equity	43.7	55.9	48.5	40.3	34.0
Total debt/Total assets	22.3	27.8	26.9	23.9	21.1
Net cash/Equity	13.7	20.7	27.7	17.6	28.7
Net cash/Total assets	7.0	10.3	15.3	10.4	17.8

Source(s): Company, ABCI Securities estimates

WH Group (288 HK)

Improving global conditions to boost growth

- FY20 revenue growth reached 6.2% YoY; revenue of packaged meat and pork segments in FY20 was down 1.3% YoY and up 11.6% YoY
- GPM, OPM and NPM (to shareholders of the Company) declined to 17.6% (FY19: 20.3%), 6.8% (FY19: 8.4%), and 3.8% (FY19: 5.7%) in FY20
- Expect revenue CAGR of 4.7% in FY19-22E
- Maintain **BUY**; TP implies 9.85x/9.11x 21E/22E P/E or 1.40x/1.24x 21E/22E P/B

FY20 revenue grew by 6.2% YoY. Revenue of packaged meat segment declined by 1.3% YoY; the impacts of COVID-19 struck hard in the US market throughout the year and slashed 8.4% in its packaged meat revenue; 11.7% YoY revenue growth was recorded for China's packaged meat business, showing the Group's efficient product portfolio adjustment and China's quick recovery from the pandemic. The Group's pork segment, which represents hog farming, slaughtering, wholesale and retail sales of fresh and frozen pork, saw a revenue growth of 11.6% YoY. The 28.5% YoY revenue growth in China's pork segment reflects the swift post-pandemic recovery and the rising pork price in 2020.

Margin declined in FY20. GPM, OPM and NPM (to shareholders of the Company) declined to 17.6% (FY19: 20.3%), 6.8% (FY19: 8.4%), and 3.8% (FY19: 5.7%) in FY20. The weakened US market pushed down margins- the operating profit the packaged meat in the US declined by 32.6% YoY and that of the pork segment recorded losses. Meanwhile, China's operating profit in the pork/packaged meat segments increased by 8.8%/24.2%.

Maintain BUY; TP at HK\$ 8.4. We believe the Group would benefit from the rebounding Chinese economy and the gradual recuperation in the US aided by the vaccination rollout. We expect FY20-23E revenue CAGR to be 4.7%, while that of packaged meat and pork segments would be 3.9% and 5.7%. We also expect margins to improve as the impact of COVID-19 subsides and the Group continues to optimize its product mix; GPM and NPM (to shareholders of the Company) would increase from 17.6% and 3.2% in FY20 to 21.7% and 6.4% in FY23E. Maintain **BUY**. Our DCF-derived TP represents 9.85x/9.11x 21E/22E P/E or 1.40x/1.24x 21E/22E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Risk of revenue and profit loss over trade war; 4) Product quality/safety risk; 4) Risk of changing consumer taste; 5) Commodity price risk; 6) Foreign exchange risk; 7) Interest rate risk; 8) Pandemic risk

Results and Valuation

FY ended Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	24,103	25,589	26,501	27,822	29,406
Chg (% YoY)	6.6	6.2	3.6	5.0	5.7
Net Profit (to shareholders of the Company) (US\$ mn)	1,465	828	1,619	1,750	1,890
Chg (% YoY)	55.4	(43.5)	95.6	8.1	8.0
Basic EPS (US\$ cent)	9.96	5.62	10.98	11.87	12.82
Chg (% YoY)	54.9	(43.6)	95.4	8.1	0.0
P/E (x)	8.63	15.30	7.83	7.25	6.71
BVPS (US cent)	58.99	67.91	77.19	87.23	98.10
P/B (x)	1.46	1.27	1.11	0.99	0.88
DPS(HK\$)	0.32	0.18	0.26	0.28	0.30
Yield (%)	4.7	2.6	3.8	4.1	4.5
ROAA (%)	10.4	6.1	9.6	9.2	9.0
ROAE (%)	17.8	8.9	15.1	14.4	13.8

Source(s): The Company, Bloomberg, ABCI Securities estimates

Company Report

Apr 16, 2021
 Rating: **BUY**
 TP: **HK\$ 8.4**

Analyst: Paul Pan
 Tel: (852) 2147 8829
 Email: paulpan@abci.com.hk

Share price (HK\$)	6.68
52Wk H/L(HK\$)	7.93/5.9
Est. share price return	25.75%
Est. dividend yield	2.62%
Est. total return	28.37%
Previous Rating & TP	BUY; HK\$9.6
Previous report date	Apr 3, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	14,745.67
Market cap (HK\$ mn)	98,501.08
3-mth ADT (HK\$ mn)	316.93

Major shareholders

Heroic Zone	(%)	23.57
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Source(s): Bloomberg, HKEX

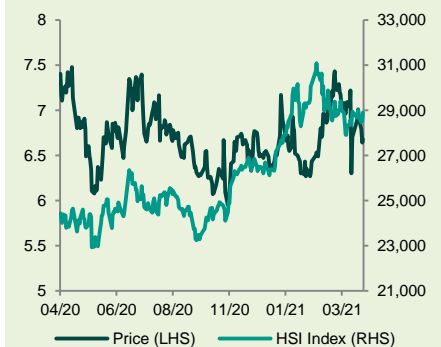
Sector Performance (%)

	Absolute	Relative*
1-mth	(7.61)	(8.18)
3-mth	1.21	(0.53)
6-mth	7.92	(9.77)

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Note: 1) All market data as of Apr14, 2021; 2) Gross and operating profits discussed in the report are before biological adjustment, 3) Net profits are after biological adjustment; 4) USD/HKD: 7.7673



Exhibit 1: Change in assumptions, projections, and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
Assumptions					
D/E (%)	26.8	27.4	34.4	33.1	Adjusted based on FY20 rates
D/A (%)	14.3	17.1	20.0	19.5	
Tax rate (%)	17.2	17.1	17.8	17.6	
Revenue growth (YoY %)	3.6	5.0	9.1	10.3	Growth projection adjusted based on FY20 performance
Valuations					
TP (HK\$)	8.4		9.6		Lower valuation to reflect the lower growth projection
P/E (x)	9.85	9.11	10.00	8.54	
P/B (x)	1.40	1.24	1.63	1.42	

Note: 1) Previous report was published on Apr 3, 2020;

Source(s): The Company, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

FY ends at Dec 31	Current report		Previous report		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue (US\$ mn)	26,501	27,822	28,586	31,525	(7.3)	(11.7)
Net profit (to owners of the Company) (US\$ mn)	1,619	1,750	1,824	2,135	(11.2)	(18.0)
EPS (US\$ cent)	10.98	11.87	12.39	14.50	(11.4)	(18.2)

Note: Net profit and EPS are after biological adjustment

Source(s): ABCI Securities estimates



Financial Statements

Consolidated income statement

FY ends at Dec 31 (US\$ mn, except per share data)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	24,103	25,589	26,501	27,822	29,406
- Packaged meat	12,331	12,167	12,315	13,045	13,638
- Pork	11,015	12,296	13,010	13,558	14,539
- Others	757	1,126	1,176	1,219	1,229
COGS	(18,871)	(20,563)	(20,647)	(21,567)	(22,656)
Gross profit	5,232	5,026	5,854	6,255	6,750
Distribution and selling expenses	(2,059)	(1,914)	(2,384)	(2,491)	(2,613)
Admin expenses	(811)	(874)	(909)	(960)	(1,023)
Biological adjustment	(230)	(720)	(189)	(213)	(328)
Others	(101)	211	(7)	(27)	(10)
Operating profit	2,031	1,729	2,365	2,564	2,776
- Packaged meat	1,574	1,499	1,615	1,727	1,830
- Pork	570	341	437	457	477
- Others	(113)	(111)	313	380	470
Net finance cost	(144)	(135)	(139)	(169)	(182)
Share of profits from JV and associates	15	16	22	24	24
Pretax profit	2,052	1,315	2,248	2,419	2,618
Tax	(357)	(223)	(386)	(413)	(448)
Net profit	1,695	1,092	1,862	2,006	2,170
- Profit attributable to shareholders	1,465	828	1,619	1,750	1,890
- Minority interest	230	137	243	257	280
EPS					
- Basic (US cent)	9.96	5.62	10.98	11.87	12.82
- Diluted (US cent)	9.90	5.60	10.66	11.52	12.45
DPS (HK cent)	31.50	17.50	25.59	27.65	29.86

Note: 1) Pork segment represents hog farming, slaughtering, wholesale and retail sales of fresh and frozen pork
Source(s): The Company, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash and cash equivalent	552	1,599	698	2,794	1,694
Trade and bills receivable	1,047	915	1,482	1,034	1,413
Inventory	2,903	2,641	2,429	2,716	1,849
ST Biological assets	1,107	1,047	2,415	3,371	5,482
Others	1,098	1,632	1,456	1,537	1,812
Total current assets	6,707	7,834	8,481	11,452	12,250
PP&E	5,406	5,531	6,112	6,248	6,359
LT Biological assets	137	135	348	473	800
Goodwill	1,955	2,008	2,008	2,008	2,008
Intangible assets	1,712	1,762	1,659	1,652	1,645
Interest in JV and associates	347	354	386	421	460
Others	1,018	1,091	1,159	1,173	1,196
Total non-current assets	10,575	10,881	11,672	11,975	12,466
Total assets	17,282	18,715	20,153	23,427	24,717
Trade and bills payable	1,074	913	1,289	1,003	1,244
ST borrowings	905	842	1,010	1,194	1,203
Others	1,890	2,312	816	2,008	1,029
Total current liabilities	3,869	4,067	3,115	4,205	3,477
LT Borrowings	2,187	1,840	2,441	2,885	2,908
Others	1,774	1,823	1,992	1,996	2,106
Total non-current liabilities	3,961	3,663	4,433	4,880	5,014
Shareholders' equity	8,684	10,005	11,381	12,863	14,466
Minority interest	768	980	1,223	1,480	1,760
Total equity	9,452	10,985	12,604	14,342	16,226
Total liabilities and equity	17,282	18,715	20,153	23,427	24,717

Source(s): The Company, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Dec 31 (US\$ mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Pretax profit	2,052	1,315	2,248	2,419	2,618
Depreciation and amortization	473	499	544	585	629
Change in working capital	(773)	714	(3,144)	74	(2,675)
Others	(289)	(171)	(191)	(231)	(203)
Cash flow from operating activities	1,463	2,357	(543)	2,847	370
Capex	(703)	(572)	(903)	(917)	(934)
Others	(93)	(391)	202	45	60
Cash flow from investing activities	(796)	(963)	(700)	(872)	(874)
Change in borrowings	(27)	(410)	769	627	33
Others	(566)	(69)	(402)	(548)	(582)
Cash flow from financing activities	(593)	(479)	367	79	(549)
Net change in cash	74	915	(876)	2,054	(1,053)
ForEx effect	(6)	86	(7)	(23)	(13)
Cash at the end of FY	552	1,553	670	2,701	1,636

Source(s): The Company, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
Growth (YoY %)					
Revenue	6.6	6.2	3.6	5.0	5.7
- Packaged meat	1.5	(1.3)	1.2	5.9	4.6
- Pork	12.1	11.6	5.8	4.2	7.2
Gross profit	6.1	9.8	(1.2)	4.5	5.7
Operating profit	23.1	(14.9)	36.8	8.4	8.3
Net profit (to owners of the company)	55.4	(43.5)	95.6	8.1	0.0
Profitability ratios (%)					
GPM	20.3	17.6	21.4	21.7	21.7
OPM	8.4	6.8	8.9	9.2	9.4
- Packaged meat	12.8	12.3	13.1	13.2	13.4
- Pork	5.2	2.8	3.4	3.4	3.3
EBITDA margin	11.1	8.9	11.0	11.3	11.5
NPM (to owners of the company)	6.1	3.2	6.1	6.3	6.4
Revenue contribution (%)					
Packaged meat	51.2	47.5	46.5	46.9	46.4
Fresh pork	45.7	48.1	49.1	48.7	49.4
Hog production	3.1	4.4	4.4	4.4	4.2
Return ratios (%)					
ROAA	10.4	6.1	9.6	9.2	9.0
ROAE	17.8	8.9	15.1	14.4	13.8
Liquidity ratio (x)					
Current ratio	1.7	1.9	2.7	2.7	3.5
Quick ratio	0.7	1.0	1.2	1.3	1.4
Cash ratio	0.2	0.4	0.2	0.7	0.5
Cash conversion cycle (days)					
Days of outstanding receivable	16.4	13.9	16.4	16.4	15.1
Days of inventory on hand	46.8	48.0	44.4	43.1	36.2
Days of outstanding payable	19.0	17.9	19.7	19.1	18.8
CCC	44.2	44.0	41.1	40.4	32.5
Leverage ratios (%)					
Total debt/Equity	35.6	26.8	27.4	28.4	25.3
Total debt/Total assets	17.9	14.3	17.1	17.4	16.6

Note: 1) Excluding measures relating to NP (to owners of the Company), all other measures are pre-bio. adj.

2) Pork segment represents hog farming, slaughtering, wholesale and retail sales of fresh and frozen pork

Source(s): The Company, ABCI Securities estimates

Shuanghui Development (000895 CH)

Maintain BUY on steady growth outlook

- FY20 revenue growth reached 22.5% YoY; revenue of packaged meat products and fresh meat grew 11.7% YoY and 23.4% YoY
- As the hog inventory in China replenishes, the national hog price may decline in 2H21, which would reduce overall cost pressure and ASP growth in fresh meat bus
- Expect revenue CAGR in FY20-23E to reach 7.5%
- Maintain **BUY**; current TP implies 21.97x/18.79x 21E/22E P/E, or 6.00x/5.47x 21E/22E P/B

FY20 revenue growth reached 22.5% YoY. Revenue grew 22.5% YoY in FY20 despite lower sales volume thanks to adjustment in product portfolio and channel development strategy. Revenue of packaged meat products and fresh meat grew 11.7% YoY and 23.4% YoY. Sales volume of packaged meat and fresh meat declined by 0.9% YoY and 7.0% YoY. In addition, the higher hog price in 2020 in China boosted the Group's pricing ability (average hog price in 2020 was RMB33.91/kg, up 60.3% YoY). Based on our calculation, the ASP of packaged meat and fresh meat segment increased by 12.7% YoY and 32.8% YoY.

Margins decline due to increase in hog price. The Group's GPM, OPM, and NPM (to shareholders of the Company) declined from 18.8%, 10.9% and 9.0% in FY19 to 17.3%, 9.9%, and 8.5% in FY20. The major cause of margin decline is the increase in raw material costs, especially the hogs. The Group's SG&A/revenue ratio, however, declined from 6.7% in FY19 to 5.5% in FY20, showing higher management efficiency.

Maintain BUY; TP at RMB 44.8. We believe FY20 shows its ability to capture the rise in pork price and the recovery from the pandemic. We believe as the hog inventory in China replenishes, the national hog price may decline in 2H21. Lower pork price would help reduce some cost pressure, but the Group may also face lower ASP growth on the fresh meat business. We expect revenue CAGR in FY20-23E would be 7.5%, of which revenue CAGRs of packaged meat and fresh pork segment would be 9.1% and 5.7%. In addition, we expect GPM and NPM (to shareholders of the Company) would increase from 17.3% and 8.5% in FY20 to 19.3% and 10.5% in FY23E. Maintain **BUY**. Our DCF-derived TP is unchanged due to the combined effects of lower growth projection and roll-over of DCF forecast period by one year. Current TP represents 21.97x/18.79x 21E/22E P/E, or 6.00x/5.47x 21E/22E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory/policy risk; 3) Product quality/safety risk; 4) Risk of changing consumer tastes; 4) Inflation risk; 5) Commodity price risk.

Results and Valuation

FY ended Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	60,348	73,935	79,955	85,576	91,800
Chg (% YoY)	23.4	22.5	8.1	7.0	7.3
Net Profit (RMB mn)	5,438	6,256	7,064	8,262	9,634
Chg (% YoY)	10.7	15.0	12.9	17.0	16.6
Basic EPS (RMB)	1.64	1.86	2.04	2.38	2.78
Chg (% YoY)	10.7	13.8	9.4	17.0	16.6
P/E (x)	24.59	21.61	19.76	16.89	14.49
BVPS (RMB)	4.97	6.86	7.47	8.19	9.02
P/B (x)	8.11	5.87	5.39	4.92	4.47
DPS (RMB)	1.00	2.32	1.43	1.67	1.95
Yield (%)	2.5	5.8	3.5	4.1	4.8
ROAA (%)	21.1	19.8	19.6	22.3	23.3
ROAE (%)	35.3	30.3	27.9	29.7	31.3

Source(s): The Company, Bloomberg, ABCI Securities estimates

Company Report

Apr 16, 2021

Rating: **BUY**

TP: **RMB 44.8**

Analyst: Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (RMB)	40.28
52Wk H/L(RMB)	65.65/38
Est. share price return	11.22%
Est. dividend yield	5.76%
Est. total return	16.98%
Previous rating & TP	BUY; RMB44.8
Previous report date	May 19, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	3,464.66
Mkt cap (HK\$ mn)	139,556.55
3-mth ADT (RMBmn)	710.20

Major shareholding (%)

Rotary Vortex	70.33
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Source(s): Bloomberg, Company

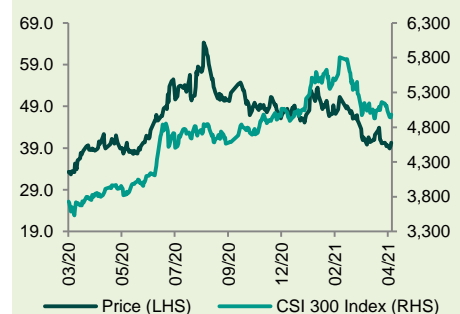
Price Performance (%)

	Absolute	Relative*
1-mth	(2.16)	1.05
3-mth	(24.70)	(15.75)
6-mth	(24.68)	(28.38)

* Relative to CSI 300

Source(s): Bloomberg, ABCI Securities

1-Year price performance(RMB)



Source(s): Bloomberg, ABCI Securities

Note: All pricing and market data as of Apr 14, 2021

Exhibit 1: Changes in assumptions and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
Assumptions					
D/E (%)	10.4	10.2	16.2	15.1	Adjusted based on FY20 rates
D/A (%)	7.4	8.1	10.7	10.6	
Tax rate (%)	20.5	20.2	17.2	17.2	
Revenue growth (YoY %)	8.1	7.0	16.6	15.9	Lower growth based on lower pork price growth expectation and FY20 performance
Valuations					
TP (RMB)	44.8		44.8		TP is unchanged due to the change in growth forecast and roll-over of DCF forecast period
P/E (x)	21.97	18.79	21.98	16.12	
P/B (x)	6.00	5.47	5.94	5.35	

Note: Previous report was published on May 19, 2020

Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

FY ends at Dec 31	Current report		Previous report		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue (RMB mn)	79,955	85,576	88,418	102,499	(9.6)	(16.5)
Net profit (to owners of the Company) (RMB mn)	7,064	8,262	7,441	10,138	(5.1)	(18.5)
EPS (RMB)	2.04	2.38	2.04	2.78	0.0	(14.2)

Source(s): ABCI Securities estimates

Financial statements

Consolidated income statement

FY ends at Dec31 (RMB mn, except per share data)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	60,348	73,935	79,955	85,576	91,800
Core revenue	60,310	73,863	79,875	85,490	91,709
- Packaged pork product	25,163	28,098	31,059	34,175	36,470
- Fresh pork	39,100	48,267	51,042	53,213	57,012
- Other products	3,422	5,199	6,094	7,009	7,779
- Intersegment elimination	(7,375)	(7,702)	(8,321)	(8,906)	(9,554)
Interest income	38	73	80	85	92
Commission and processing income	0	0	0	0	0
COGS	(48,977)	(61,114)	(66,034)	(69,954)	(74,069)
GP	11,320	12,794	13,872	15,555	17,678
Core GP	11,333	12,749	13,841	15,536	17,640
- Packaged pork product	7,160	8,582	9,671	11,075	12,095
- Fresh pork	3,606	3,460	3,788	4,024	4,722
- Other products	778	692	1,266	1,657	1,562
- Intersegment elimination	(211)	87	(884)	(1,221)	(739)
GP of interest income	(13)	46	31	20	38
GP of Commission and processing income	(1)	(0)	(0)	(0)	(0)
Business levy and taxes	(297)	(341)	(368)	(394)	(423)
S&D expenses	(2,706)	(2,661)	(2,894)	(2,993)	(3,178)
Admin expenses	(1,308)	(1,392)	(1,473)	(1,542)	(1,640)
Others expenses	(330)	(1,004)	(763)	(1,082)	(1,154)
Operating profit	6,590	7,300	8,285	9,457	11,194
- Packaged pork product	4,657	5,755	6,488	7,282	7,693
- Fresh pork	1,911	1,581	1,627	1,646	1,763
- Other products	233	51	61	832	4,630
Net finance income/(costs)	(97)	(33)	33	67	96
Others gain/losses	(177)	(480)	117	103	(43)
Pretax profit	6,838	7,973	9,180	10,694	12,392
Tax	(1,173)	(1,603)	(1,884)	(2,165)	(2,468)
Net profit	5,666	6,370	7,296	8,529	9,924
- Owners of the company	5,438	6,256	7,064	8,262	9,634
- Minority interest	228	114	233	268	290
Dividend	3,319	8,038	4,945	5,783	6,744
EPS (RMB)					
- Basic	1.64	1.86	2.04	2.38	2.78
- Diluted	1.64	1.86	2.04	2.38	2.78
DPS (RMB)	1.00	2.32	1.43	1.67	1.95

Source(s): The Company, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash and cash equivalent	3,455	8,486	13,085	15,892	19,027
Trade and bills receivable	213	281	236	319	274
Inventories	8,801	6,378	10,514	5,741	10,973
Others	3,834	6,930	973	956	1,269
Current assets	16,303	22,074	24,809	22,908	31,544
PP&E	10,575	10,304	10,623	11,614	12,033
Construction in progress	174	323	344	407	508
Biological assets	54	148	69	70	67
Intangible assets	981	1,027	1,071	1,105	1,141
Others	545	828	491	685	660
Non-current assets	12,330	12,630	12,598	13,881	14,410
Total assets	28,633	34,704	37,407	36,788	45,954
Trade and bills payable	3,084	1,712	5,128	1,142	6,489
ST borrowings	3,345	2,384	2,747	2,976	3,482
Others	4,855	5,899	2,697	2,847	3,128
Current liabilities	11,284	9,995	10,573	6,964	13,100
LT borrowings	16	15	13	16	19
Deferred tax liabilities	152	203	71	247	113
Others	66	358	178	233	206
Non-current liabilities	234	576	262	496	337
Shareholders' equity	16,488	23,763	25,882	28,361	31,251
Minority interest	628	370	602	870	1,160
Total equity	17,115	24,133	26,484	29,231	32,411
Total liabilities and equity	28,633	34,704	37,319	36,691	45,847

Source(s): The Company, ABCI Securities estimates

Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	5,666	6,370	7,296	8,529	9,924
Depreciation and amortization	972	980	965	1,058	1,126
Change in working capital	(2,552)	945	(662)	701	177
Others	337	527	669	769	872
Cash flow from operating activities	4,424	8,822	8,269	11,057	12,098
PP&E	(659)	(1,137)	(928)	(1,796)	(1,291)
Investments	(716)	(2,797)	153	(1,090)	(1,231)
Others	0	282	0	0	0
Cash flow from investing activities	(1,375)	(3,652)	(775)	(2,886)	(2,522)
Bank borrowing	(15)	(720)	362	231	509
Others	(2,370)	533	(8,548)	(5,263)	(6,154)
Cash flow from financing activities	(2,385)	(187)	(8,186)	(5,032)	(5,645)
Net change in cash and cash equivalent	664	4,983	3,779	2,582	2,781
ForEx effect	1	2	4	5	6
Cash and cash equivalent at the end of FY	3,146	8,131	11,914	14,501	17,287

Source(s): The Company, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
Growth (YoY %)					
Revenue	23.4	22.5	8.1	7.0	7.3
Core revenue	23.7	22.5	8.1	7.0	7.3
- Packaged pork product	8.8	11.7	10.5	10.0	6.7
- Fresh pork	35.2	23.4	5.7	4.3	7.1
- Other products	28.7	54.1	15.6	15.0	11.0
Gross profit	6.3	13.0	8.4	12.1	13.6
Core GP	7.8	12.5	8.6	12.2	13.5
- Packaged pork product	1.0	19.9	12.7	14.5	9.2
- Fresh pork	26.0	(4.0)	9.5	6.2	17.4
- Other products	33.8	(11.0)	83.0	115.8	(5.8)
EBIT	7.6	20.0	9.0	16.5	17.2
EBITDA	7.1	9.4	11.8	13.6	17.1
Pretax Profit	8.9	16.6	15.1	16.5	15.9
Net profit (to owners of the company)	10.7	15.0	12.9	17.0	16.6
Profitability ratios (%)					
GPM	18.8	17.3	17.3	18.2	19.3
Core GPM	18.8	17.3	17.3	18.2	19.2
- Packaged pork product	28.5	30.5	31.1	32.4	33.2
- Fresh pork	9.2	7.2	7.4	7.6	8.3
- Other products	22.7	13.1	20.8	23.6	20.1
OPM	10.9	9.9	10.4	11.1	12.2
EBITDA margin	12.5	11.2	11.5	12.2	13.4
Pretax margin	11.3	10.8	11.5	12.5	13.5
NPM (to owners of the company)	9.0	8.5	8.8	9.7	10.5
Core revenue contribution (%)					
Packaged meat product	41.7	38.0	38.9	40.0	39.8
Fresh meat	64.8	65.3	63.9	62.2	62.2
Others	5.7	7.1	7.6	12.2	8.5
Return ratios (%)					
ROAA	21.1	19.8	19.6	22.3	23.3
ROAE	35.3	30.3	27.9	29.7	31.3
Liquidity ratio (x)					
Current ratio	1.4	2.2	2.3	3.3	2.4
Quick ratio	0.7	1.6	1.4	2.5	1.6
Cash ratio	0.3	0.8	1.2	2.3	1.5
Cash conversion cycle (days)					
Days of outstanding receivable	0.8	1.0	0.9	0.9	0.9
Days of inventory on hand	48.6	45.3	46.7	42.4	41.2
Days of outstanding payable	16.7	14.5	17.8	17.6	17.6
CCC	32.7	31.8	29.8	25.7	24.5
Leverage ratios (%)					
Total debt/Total equity	19.6	9.9	10.4	10.2	10.8
Total debt/Total assets	11.7	6.9	7.4	8.1	7.6
Net cash (debt) /Total equity	0.5	25.2	39.0	44.1	47.9
Net cash (debt) /Total assets	0.3	17.5	27.6	35.1	33.8

Source(s): The Company, ABCI Securities estimates

Yum China (YUMC US / 9987HK)

Investment projects boost growth outlook

- The Group announced the acquisition of a 5% equity Interest in Fujian Sunner Development (Sunner) (002299 CH) -the largest white-feathered broiler producer in China
- It announced in Mar of its plan to establish its Southwest Supply Chain Support Center in Chongzhou district, Chengdu; the Center will enhance supply chain capabilities and cold-chain logistics services in southwest China
- Recent investments strengthen our confidence in the Group's prospect; we expect 14.8% revenue CAGR in FY20-23E
- Maintain **BUY**; current TP represents 32.87x/26.46x 21E/22E P/E, or 4.29x/3.66x 21E/22E P/B

Strategic investment in Sunner. The Group announced the acquisition of a 5% equity interest in Fujian Sunner Development (Sunner) (002299 CH), the largest white-feathered broiler producer in China with a vertically integrated business model that covers the whole production chain. As Sunner is the Group's biggest poultry supplier, we believe the strategic investment would enable a more secure supply and more flexibility in product development.

Establishment of Southwest Supply Chain Support Center in Chengdu. The Group announced to establish the Southwest Supply Chain Support Center (Center) in Chongzhou district, Chengdu. The Center requires a total investment of RMB ~183mn and is expected to commence operation in mid-2022. As of end-2020, the Group had 25 logistic centers and seven consolidation centers, covering more than 1,500 cities. The Center would be a new addition to the Group's intelligent supply chain initiative, which utilizes big data, IoT, artificial intelligence, and other cutting-edge technologies. We believe the Group can further enhance its supply chain capabilities and cold-chain logistics services in southwest China, enabling its future expansion in the region.

Maintain BUY, TP at US\$ 73.1/HK\$ 567.0. We are confident in the Group's growth outlook. We maintain our previous growth forecasts: FY20-23E revenue CAGR would be 14.8%, supported by 17.1%/6.9% CAGRs for KFC /Pizza Hut. Restaurant margin, OPM, and NPM (to shareholders of the Company) would increase from 14.9%, 11.6%, and 9.5% in FY20 to 16.2%, 12.1%, and 9.7% in FY23E. Maintain **BUY**. Our DCF-derived TP stays unchanged. Current TP represents 32.87x/26.46x 21E/22E P/E, or 4.29x/3.66x 21E/22E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory risk; 3) Operational risk; 4) Cost risk; 5) Concentration risk; 6) Seasonality risk; 7) Non-GAAP financial metrics.

Results and Valuation

FY ended Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	8,776	8,263	9,859	11,091	12,500
Chg (% YoY)	4.3	(5.8)	19.3	12.5	12.7
Net profit (US\$ mn) ⁽¹⁾	713	784	868	1,078	1,210
EPS (US\$)	0.7	10.0	10.7	24.2	12.3
Chg (% YoY)	2.7	6.3	3.0	24.2	12.3
BVPS (US\$)	8.16	15.91	15.88	18.57	20.75
Chg (% YoY)	9.1	95.0	(0.2)	17.0	11.7
P/E (x) – US	31.87	29.97	29.09	23.42	20.86
P/E (x) – HK	31.74	29.85	28.98	23.33	20.78
P/B (x) – US	7.38	3.78	3.79	3.24	2.90
P/B (x) – HK	7.35	3.77	3.78	3.23	2.89
ROAE (%)	12.9	9.1	7.9	8.8	8.7
ROAA (%)	24.0	16.9	13.5	14.9	14.7
DPS (US\$)	0.48	0.24	0.48	0.48	0.48
Yield (%) - US	0.8	0.4	0.8	0.8	0.8
Yield (%) - HK	0.8	0.4	0.8	0.8	0.8

Source(s): The Group, ABCI Securities estimates

Company Report

Apr 16, 2021

Rating (US): BUY

Rating (HK): BUY

TP (US): US\$ 73.1

TP (HK): HK\$ 567.0

Analyst : Paul Pan
 Tel: (852) 2147 8829
 paulpan@abci.com.hk

Price (US/HK)	US\$ 60.23/HK\$ 466
Est. price return (US/HK)	21.42%/21.9%
Est. dividend yield (US/HK)	0.8%/0.8%
Est. total return (US/HK)	22.22%/22.7%
Previous Rating&	BUY;
TP (US/HK)	US\$ 73.1/HK\$ 567.0
Previous Report Date	Feb 8, 2021

Source(s): Bloomberg, ABCI Securities estimate

Key Data

52Wk H/L (US\$) (US shr)	64.64/43.5
52Wk H/L (HK\$) (HK shr)	506/385.6
Total issued shares (mn)	419
Issued US shr (mn)	377
Issued HK shr(mn)	42
US-shr market cap (US\$ mn)	22,718
H-shr market cap (HK\$ mn)	19,530
3-mth avg daily turnover (US\$ mn) (US shr)	121.09
Avg daily turnover since IPO (HK\$ mn) (HK shr)	111.95
Major shareholder(s) (%)	
Invesco	9.97

Source(s): Bloomberg, ABCI Securities

Price performance – US (%)

	Absolute	Relative*
1-mth	(4.14)	(5.84)
3-mth	0.53	(10.65)
6-mth	7.79	(9.11)

*Relative to S&P 500 Index

Source(s): Bloomberg, ABCI Securities

Price performance – HK (%)

	Absolute	Relative*
1-mth	(2.51)	(3.09)
3-mth	2.62	0.88
6-mth	12.74	(4.95)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Note:

1) refers to net profit to shareholders of the Company ;

2) US\$/HK\$= 7.7673

3) Market data as of Apr 14, 2021



Exhibit 1: Changes in assumptions and valuations

As of Dec 31	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
Assumptions					
D/E (%)	0	0	0	0	N/A
D/A (%)	0	0	0	0	N/A
Tax rate (%)	26.5	26.5	26.5	26.5	N/A
Net revenue growth (YoY %)	19.3	12.5	19.3	12.5	N/A
Valuations					
TP (US\$)	73.1		73.1		
TP (HK\$)	567.0		567.0		
P/E (x)	32.87	26.46	32.87	26.46	N/A
P/B (x)	4.29	3.66	4.29	3.66	

Note: Previous report was published on Feb 8, 2021

Source(s): ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of Dec 31	Current report			Previous report			Change (%)		
	FY21E	FY22E	FY23	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net revenue (US\$ mn)	9,859	11,091	12,500	9,859	11,091	12,500	0.0	0.0	0.0
Net profit (to shareholders of the Company) (US\$ mn)	868	1,078	1,210	868	1,078	1,210	0.0	0.0	0.0
EPS (US\$)	2.07	2.57	2.89	2.07	2.57	2.89	0.0	0.0	0.0

Source(s): ABCI Securities estimates

Financial statements

Consolidated income statement

FY ended Dec 31 (US\$ mn, except per share data)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	8,776	8,263	9,859	11,091	12,500
- Company sales	7,925	7,396	8,816	9,929	11,216
- Others	851	867	1,043	1,162	1,284
Company restaurant expenses	(6,659)	(6,298)	(7,497)	(8,335)	(9,400)
Restaurant profit	1,266	1,098	1,320	1,594	1,816
General and administrative expenses	(487)	(479)	(547)	(612)	(685)
Franchise expenses	(71)	(65)	(78)	(92)	(109)
Expenses for transactions with franchisees and unconsolidated affiliates	(645)	(633)	(760)	(839)	(932)
Other operating costs and expenses	(37)	(57)	(49)	(53)	(61)
Closures and impairment expenses, net	(36)	(55)	(52)	(54)	(60)
Other income, net	60	285	225	236	261
Operating profit	901	961	1,102	1,342	1,514
Others	102	147	116	173	192
Pretax profit	1,003	1,108	1,218	1,515	1,706
Tax	(260)	(295)	(323)	(402)	(452)
Net profit	743	813	895	1,113	1,254
- Owners	713	784	868	1,078	1,210
- MI	30	29	27	35	44
Cash Dividend	181	94	201	201	201
EPS (US\$)					
- Basic	1.89	2.01	2.07	2.57	2.89
- Diluted	1.84	1.95	2.02	2.51	2.81
Cash DPS (US\$)	0.48	0.24	0.48	0.48	0.48

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ended Dec 31 (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash and cash equivalents	1,046	1,158	1,435	1,917	3,126
Accounts receivable	88	99	100	129	136
Inventories	380	398	404	524	550
Others	745	3,281	3,343	3,524	3,595
Current assets	2,259	4,936	5,281	6,093	7,407
PP&E	1,594	1,765	1,862	2,084	2,299
Operating lease right-of-use assets	1,985	2,164	2,416	2,761	3,165
Intangible assets & goodwill	348	1,078	1,093	1,153	1,172
Others	764	932	1,251	1,352	1,416
Non-current assets	4,691	5,939	6,622	7,351	8,051
Total assets	6,950	10,875	11,903	13,444	15,458
Accounts payable and other current liabilities	1,691	1,995	2,471	2,475	3,113
Income taxes payable	45	72	54	104	72
Current liabilities	1,736	2,067	2,525	2,579	3,185
Non-current operating lease liabilities	1,803	1,915	2,085	2,418	2,837
Non-current finance lease obligations	26	28	26	27	27
Others	210	394	320	308	341
Non-current liabilities	2,039	2,337	2,431	2,752	3,204
Shareholders' capital	3,077	6,206	6,655	7,785	8,698
MI	98	253	280	315	359
Total equity	3,175	6,459	6,935	8,100	9,057
Total liabilities and equity	6,950	10,875	11,903	13,444	15,458

Source(s): The Group, ABCI Securities estimates

Consolidated cash flow statement

FY ended Dec 31 (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	743	813	895	1,113	1,254
Depreciation and amortization	767	818	921	1,015	1,129
Change in working capital	82	52	501	(230)	632
Others	(407)	(569)	(78)	44	(76)
Cash flow from operating activities	1,185	1,114	2,238	1,942	2,939
Capital spending	(435)	(419)	(594)	(600)	(671)
Others	(475)	(2,690)	(67)	(64)	(61)
Cash flow from investing activities	(910)	(3,109)	(661)	(664)	(731)
Share issuance - HK	0	2,195	0	0	0
Cash dividend	(181)	(95)	(201)	(201)	(201)
Others	(299)	(42)	(1,075)	(583)	(744)
Cash flow from financing activities	(480)	2,058	(1,276)	(784)	(945)
Effect of foreign exchange rate changes	(6)	40	(24)	(13)	(53)
Net change in cash, cash equivalent, and restricted cash	(211)	103	277	482	1,209
cash, cash equivalent, and restricted cash - end	1,055	1,158	1,435	1,917	3,126

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ended Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
Growth (YoY %)					
Net revenue	4.3	(5.8)	19.3	12.5	12.7
Restaurant profit	5.6	(13.3)	20.2	20.8	13.9
Operating profit	(4.3)	6.7	14.7	21.8	12.8
Net profit (to shareholders of the Company)	0.7	10.0	10.7	24.2	12.3
Non-GAAP operating profit	6.7	2.5	13.7	24.1	11.7
Non-GAAP net profit	20.3	17.7	0.2	29.9	12.7
Profitability ratios (%)					
Restaurant margin	16.0	14.9	15.0	16.1	16.2
OPM	11.4	11.6	11.2	12.1	12.1
NPM (to shareholders of the Company)	8.1	9.5	8.8	9.7	9.7
Non-GAAP OPM	10.4	11.3	10.8	11.9	11.8
Non-GAAP NPM	8.3	10.4	8.7	10.1	10.1
Return ratios (%)					
ROAA	12.9	9.1	7.9	8.8	8.7
ROAE	24.0	16.9	13.5	14.9	14.7
Liquidity ratio (x)					
Current ratio	1.3	2.4	2.1	2.4	2.3
Quick ratio	1.1	2.2	1.9	2.2	2.2
Cash ratio	0.6	0.6	0.6	0.7	1.0
Working capital (days)					
Receivable turnover	3.5	4.1	3.7	3.8	3.9
Inventory turnover	41.5	49.8	43.0	44.6	46.2
Payable turnover	45.8	44.6	45.6	45.4	45.1
CCC	(0.8)	9.3	1.1	3.0	4.9
Leverage ratios (%)					
Total debt to Equity	0.0	0.0	0.0	0.0	0.0
Total debt to Total assets	0.0	0.0	0.0	0.0	0.0
Net debt/(cash) to Equity	(32.9)	(17.9)	(20.7)	(23.7)	(34.5)
Net debt/(cash) to Total assets	(15.1)	(10.6)	(12.1)	(14.3)	(20.2)

Note: 1) Restaurant profit is defined as company sales less expenses incurred directly by company-owned restaurants in generating company sales; 2) Restaurant margin is defined as restaurant profit divided by company sales; 3) Company sales refers to revenues from Company-owned restaurants; 4) Non-GAAP measures exclude the impact of share-based compensation expenses on operating costs and expenses; 5) Receivable turnover days equals the average of the beginning and ending balances of net accounts receivable for that FY divided by total revenues for that FY, and multiplied by the number of days; 6) Inventory turnover days equals the average of the beginning and ending balances of net inventory (including inventory procured by the Company, which is subsequently supplied to stores of unconsolidated affiliates and franchisees) for that FY divided by total cost of food and paper for Company-owned stores and stores of unconsolidated affiliates and franchisees for that FY, and multiplied by the number of days; 7) Payable turnover days equals the average of the beginning and ending balances of accounts payable related to inventory purchase and distribution for that FY divided by total cost of food and paper for Company-owned stores and stores of unconsolidated affiliates and franchisees for that FY and, multiplied by the number of day

Source(s): The Group, ABCI Securities estimates



Mengniu (2319 HK)

Upgrade to BUY on improving margins

- FY20 revenue declined by 3.8% YoY; revenue of liquid milk, ice cream, and milk powder segments changed by -0.2% YoY, 2.8% YoY, and -41.9% YoY in FY20
- GPM improved to 37.7% in FY20; disposal of Junlebao led to a one-off gain in FY19 and therefore, OPM and NPM declined YoY in FY20
- New schemes for selected employees to subscribe to financial products linked to the Group's share price and convertible bond performance would help motivate employees
- Expect FY20-23E revenue CAGR at 13.8%
- Upgrade to **BUY**; TP implies 39.06x/31.90x 21E/22E P/E, or 4.57x/4.10x 21E/22E P/B

FY20 revenue growth impacted by COVID-19. FY20 revenue dropped by 3.8% YoY. Revenue of liquid milk, ice cream, and milk powder segments changed by -0.2% YoY, 2.8% YoY, and -41.9% YoY in FY20. Liquid milk segment contributed to 89.1% of total revenue in FY20 (FY19: 85.9%). Excluding the impact of Junlebao and Bellamy, revenue from comparable business grew 10.6% YoY. Revenue growth (on comparable basis) in 2H20 rose to 11.8% YoY vs. 9.4% YoY in 1H20.

Mixed margin performance. The Group was able to compensate for the increase in raw milk price with product portfolio adjustment and GPM increased to 37.7% in FY20 from 37.6% in FY19. OPM and NPM (to shareholders of the Company) decreased to 4.6% and 4.6% in FY20 from 5.5% and 5.2% in FY19 mainly due to the Group's disposal of Junlebao that elevated its other incomes in 2019.

Subscription of financial products by employees under new scheme. The Group has recently announced selected employees would be able to subscribe to financial products under a new scheme. Employees investing in the contractual funds will be receiving incentives based on the performance of the Group's share price and convertible bonds. The Group also plans to issue convertible bonds that have an initial conversion price of HK\$ 34.73. The net proceeds of HK\$ 4,797.22 from the placing of convertible bonds would be used for general working capital. According to the Group, if the convertible bonds are fully converted to shares immediately after placing and share options are exercised in full, shareholdings of COFCO Dairy Investments Limited, Placees, and other shareholders would be 20.07%, 3.37%, and 66.56% respectively. We believe the scheme would motivate employees to contribute to the Group's growth.

Upgrade to BUY; adjust TP to HK\$ 50.0. We believe the Group would benefit from the rising health consciousness of consumers, the incorporation of digital strategy, and better product portfolio. We expect revenue CAGR to be 13.8% in FY20-23E. We project GPM and NPM (to shareholders of the Company) to rise from 37.7% and 4.6% in FY20 to 38.7% and 5.6% in FY23E. We upgrade to **BUY** and raised our TP due to roll-over of DCF forecast period and enhanced margin forecasts. Current TP represents 39.06x/31.90x 21E/22E P/E, or 4.57x/4.10x 21E/22E P/B.

Risk factors: 1) Macroeconomic risk; 2) Commodity price risk; 3) Food safety risk; 4) M&A risk; 5) Product concentration risk; 6) Product competitiveness risk; 7) Biological asset revaluation risk; 8) Currency exchange risk; 9) Prolonged COVID-19 outbreak; 10) Decline in dividend payout due to projected lower EPS growth.

Results and Valuation

FY ended Dec 31	FY19A	FY20A	FY21E	FY22E	2023E
Revenue (RMB mn)	79,030	76,035	86,041	97,851	112,190
Chg (% YoY)	14.6	(3.8)	13.2	13.7	14.7
Net Profit (RMB mn)	4,105	3,525	4,252	5,206	6,260
Chg (% YoY)	34.9	(14.1)	20.6	22.4	20.3
Basic EPS (RMB)	1.05	0.90	1.08	1.32	1.59
Chg (% YoY)	34.7	(14.5)	20.1	22.4	20.3
P/E (x)	36.21	42.34	35.27	28.81	23.95
BVPS (RMB)	7.40	8.38	9.20	10.25	11.48
P/B (x)	5.13	4.53	4.13	3.70	3.31
DPS (RMB)	0.18	0.27	0.26	0.33	0.42
Yield (%)	0.5	0.7	0.7	0.9	1.1
ROAA (%)	5.9	4.4	5.2	5.8	6.5
ROAE (%)	15.1	11.4	12.3	13.6	14.6

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 16, 2021

Rating: BUY

TP: HK\$ 50.0

Analyst: Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (HK\$)	45.15
52Wk H/L(HK\$)	53.85/26.078
Est. share price return	10.74%
Est. dividend yield	0.71%
Est. total return	11.45%
Previous Rating&TP	HOLD; HK\$30.5
Previous report date	Apr 15, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

Issued shares (mn)	3,948.19
Market cap (HK\$ mn)	178,260.94
3-mth ADT (HK\$ mn)	659.42

Major shareholders	(%)
COFCO	31.25

Source(s): Bloomberg, HKEX

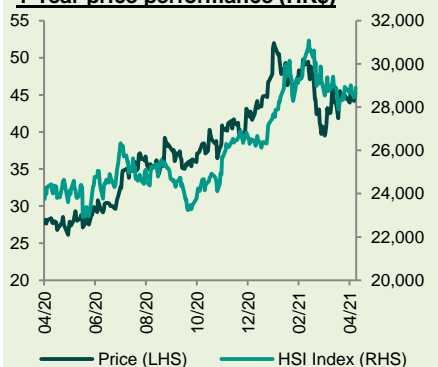
Sector Performance (%)

	Absolute	Relative*
1-mth	6.24	5.66
3-mth	(6.62)	(8.36)
6-mth	17.43	(0.26)

* Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note:

- 1) All pricing and market data as of Apr 14, 2021;
- 2) RMB/HKD: 1.1888



Exhibit 1: Change in assumptions and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
Assumptions					
D/E (%)	59.0	51.8	72.9	75.9	Adjusted based on FY20 rates
D/A (%)	26.8	24.3	30.5	30.8	
Tax rate (%)	23.6	23.6	23.4	23.4	Adjusted based on FY20 rate
Revenue growth (YoY %)	13.2	13.7	11.9	13.6	Adjusted based on FY20 performance
Valuations					
TP (HK\$)	50.0		30.5		Increase in valuation due to roll-over of DCF forecast period and enhanced margin forecasts
P/E (x)	39.06	31.90	35.59	30.94	
P/B (x)	4.57	4.10	3.27	3.01	

Note: Previous report was published on Apr 15, 2020

Source(s): The Company, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of Dec 31	Current report		Previous report		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue (RMB\$ mn)	86,041	97,851	91,478	103,881	(5.9)	(5.8)
Net profit (to shareholders of the Company) (RMB\$ mn)	4,252	5,206	3,080	3,545	38.0	46.8
EPS (RMB\$)	1.08	1.32	0.78	0.90	38.1	46.5

Source(s): ABCI Securities estimates



Financial Statements

Consolidated income statement

FY ends at Dec 31 (RMB mn, except per share data)	FY19A	FY 20A	FY21E	FY22E	FY23E
Revenue	79,030	76,035	86,041	97,851	112,190
- Liquid milk	67,878	67,751	75,119	85,228	97,998
- Ice cream	2,561	2,634	3,031	3,398	3,843
- Milk formula	7,870	4,573	6,284	7,280	8,098
- Other revenue	721	1,077	1,607	1,945	2,251
COGS	(49,351)	(47,406)	(53,359)	(60,391)	(68,728)
Gross profit	29,679	28,629	32,682	37,460	43,462
S&D expenses	(21,536)	(21,541)	(23,608)	(26,637)	(30,425)
Admin expenses	(3,319)	(3,133)	(3,595)	(4,096)	(4,708)
Others	(478)	(473)	(561)	(619)	(720)
EBIT	4,345	3,482	4,917	6,108	7,608
Net other income or gain/ expense or loss	624	(266)	(666)	(842)	(1,044)
Net interest expense/income	461	512	1,065	1,396	1,500
Income from associate/JV	175	426	447	470	493
Profit before tax	5,605	4,155	5,764	7,131	8,557
Tax	(1,310)	(653)	(1,374)	(1,699)	(2,039)
Total net profit	4,296	3,502	4,391	5,432	6,518
- Profit to shareholders	4,105	3,525	4,252	5,206	6,260
- Minority interest	190	(23)	139	226	258
Dividend	712	1,058	1,034	1,284	1,678
EPS (RMB)					
- Basic EPS	1.05	0.90	1.08	1.32	1.59
- Diluted EPS	1.05	0.89	1.07	1.31	1.58
DPS (RMB)	0.18	0.27	0.26	0.33	0.42

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY19A	FY 20A	FY21E	FY22E	FY23E
Cash and cash equivalent	6,476	11,397	16,257	16,112	18,460
Trade and bills receivable	3,587	2,988	4,146	4,053	5,415
Inventory	5,090	5,512	5,228	6,320	6,822
Others	22,333	11,609	16,297	18,238	18,364
Total current assets	37,486	31,507	41,928	44,723	49,062
PP&E and CIP	2,231	2,729	2,398	2,729	2,933
Goodwill	4,719	4,883	4,883	4,883	4,883
Other intangible assets	7,583	7,717	8,103	8,508	8,934
Others	26,518	33,310	32,439	35,377	37,099
Total non-current assets	41,052	48,640	47,824	51,497	53,849
Total assets	78,537	80,146	89,751	96,221	102,911
Trade and bills payable	6,739	7,969	8,011	9,876	10,878
ST borrowings	13,838	4,924	10,344	9,982	8,476
Others	11,157	13,251	12,495	14,746	16,261
Total current liabilities	31,734	26,144	30,850	34,605	35,615
LT Borrowings	9,635	14,020	11,464	10,553	10,575
Others	3,822	2,734	6,694	5,946	6,506
Total non-current liabilities	13,456	16,754	18,158	16,499	17,081
Shareholders' equity	29,132	32,983	36,339	40,487	45,327
Minority interest	4,215	4,265	4,404	4,630	4,888
Total equity	33,347	37,248	40,743	45,117	50,215
Total liabilities and equity	78,537	80,146	89,751	96,221	102,911

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY19A	FY 20E	FY21E	FY22E	FY23E
Pretax profit	5,605	4,155	5,764	7,131	8,557
Depreciation and amortization	2,260	1,389	1,539	1,632	1,737
Change in working capital	600	1,887	(763)	2,020	334
Others	(2,158)	10	(966)	(1,780)	(1,936)
Cash flow from operating activities	6,307	7,441	5,573	9,004	8,692
Change in PP&E and CIP	(4,009)	(4,560)	(4,808)	(4,095)	(4,267)
Others	(13,521)	4,447	(2,985)	(4,469)	(2,355)
Cash flow from investing activities	(17,530)	(113)	(7,792)	(8,565)	(6,622)
Change in borrowings	11,791	(4,529)	5,074	(626)	(635)
Others	(1,177)	(58)	(58)	(43)	(5)
Cash flow from financing activities	10,614	(4,587)	5,015	(669)	(640)
Net change in cash	(608)	2,741	2,796	(230)	1,430
Forex effect	36	5	(6)	9	4
Cash and cash equivalent - end	3,798	6,545	9,335	9,114	10,547

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	FY19A	FY 20A	FY21E	FY22E	FY23E
Growth (YoY %)					
Revenue	14.6	(3.8)	13.2	13.7	14.7
- Liquid milk	14.3	(0.2)	10.9	13.5	15.0
- Ice cream	(5.9)	2.8	15.1	12.1	13.1
- Milk powder	30.8	(41.9)	37.4	15.8	11.2
- Other products	(14.9)	49.4	49.2	21.0	15.8
Gross profit	15.1	(3.5)	14.2	14.6	16.0
Operating profit	22.6	(19.9)	41.2	24.2	24.6
Pretax profit	45.5	(25.9)	38.7	23.7	20.0
Net profit (to shareholders of the Company)	34.9	(14.1)	20.6	22.4	20.3
Profitability ratios (%)					
GPM	37.6	37.7	38.0	38.3	38.7
OPM	5.5	4.6	5.7	6.2	6.8
Pretax margin	7.1	5.5	6.7	7.3	7.6
NPM (to shareholders of the Company)	5.2	4.6	4.9	5.3	5.6
Return ratios (%)					
ROAA	5.9	4.4	5.2	5.8	6.5
ROAE	15.1	11.4	12.3	13.6	14.6
Liquidity ratio (x)					
Current ratio	1.2	1.2	1.4	1.3	1.4
Quick ratio	3.1	2.9	2.6	3.1	3.2
Cash ratio	1.7	1.9	1.8	1.9	2.0
Cash conversion cycle (days)					
Days of outstanding receivable	15	16	15	15	15
Days of inventory on hand	35	41	37	35	35
Days of outstanding payable	51	57	55	54	55
CCC	(1)	(0)	(3)	(4)	(5)
Leverage ratios (%)					
Total debt/Equity	70.4	50.9	59.0	51.8	45.3
Total debt/Total assets	29.9	23.6	26.8	24.3	22.1
Net debt/Equity	51.0	20.3	19.0	16.1	8.6
Net debt/Assets	21.6	9.4	8.6	7.6	4.2

Source(s): The Group, ABCI Securities estimates

Nongfu Spring (9633 HK)

A leading player in China's soft beverage market

- The Group is one of the leading players in the soft beverage market in China; by retail sales value, its market share was ranked fourth in 2019
- The Group has obtained access to 10 water sources across China since its establishment in 1996, which allows it build a strong brand portfolio
- The Group's sales network includes distributors that cover all provinces, municipalities and prefecture-level administrative divisions across China
- Initiate with **BUY**; current TP implies 74.42x and 61.44x 21E/22E P/E or 23.05x/18.25x 21E/22E P/B

A leading player in China's soft beverage market. The Group is among the leading players in the soft beverage market in China. According to Frost & Sullivan (F&S), in 2019, the Group's total retail sales value was RMB 62.4bn, the fourth highest with a market share of 6.3%. The Group is the leading player in the packaged drinking water market in 2019 as its retail sales value was ranked first among all players, according to F&S.

Ample water sources and strong brand portfolio. The Group has obtained access to 10 water sources across China since its establishment in 1996. According to F&S, the Group is the only one among the top five PRC packaged drinking water companies that sources all of the packaged drinking water products from natural water sources. The Group has been able to build a strong brand portfolio relying on quality water sources. According to official website, the Group has 15 brands under its portfolio. The major product categories include water products, ready-to drink tea products, functional beverage products, and juice beverage products. In FY20, the Group generated 61.0% of revenue from the water products segment.

Extensive sales network. As of May 31, 2020, the Group was working with 4,454 distributors, covering all provinces, municipalities and prefecture-level administrative divisions across China. In addition, the Group has an extensive network of retail points of sale. As of May 31, 2020, the Group's products covered more than 2.43mn retail points of sale, of which ~1.88mn were located in the third-tier cities or below. The Group also has been exploring new retail channels, such as vending machines, catering channels, and ecommerce channels.

Initiate with BUY; TP at HK\$45.8. We believe the Group would be able to deliver consistent growth with its strong product portfolio and extensive sales network. We expect revenue would increase at 17.6% CAGR in FY20-23E, supported by the 18.9% CAGR in water product segment. We expect GPM and NPM (to shareholders of the Company) to reach 57.9% and 23.4% in FY23E. Initiate with **BUY**. Our DCF-derived TP represents 74.42x and 61.44x 21E/22E P/E or 23.05x/18.25x 21E/22E P/B.

Risk factors: 1) Changing consumer demands; 2) Pandemic risk; 3) Limitation of water sources; 4) High concentration of revenue contribution from one product category; 5) Cost risk.

Results and Valuation

FY ended Dec 31	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	20,475	24,021	22,877	26,726	31,472	37,195
Chg (YoY %)	17.1	17.3	(4.8)	16.8	17.8	18.2
Net Profit – to owners of the Company (RMB mn)	3,606	4,949	5,277	5,823	7,054	8,715
Chg (% YoY)	6.7	37.2	6.6	10.3	21.1	23.6
Basic EPS (RMB)	0.33	0.46	0.48	0.52	0.63	0.77
Chg (YoY %)	6.5	39.4	4.3	7.9	21.1	23.6
P/E (x)	98.39	70.59	67.65	62.71	51.77	41.90
BVPS (RMB)	1.32	0.92	1.38	1.67	2.11	2.65
P/B (x)	34.78	49.95	33.31	27.44	21.74	17.29
Dividend (RMB cent)	N/A	N/A	0.17	0.16	0.19	0.23
Dividend yield	N/A	N/A	0.4	0.3	0.4	0.5
ROAA (%)	19.2	25.6	24.2	21.1	21.1	22.1
ROAE (%)	28.2	40.8	41.6	34.0	33.2	32.5

Source(s): The Group, ABCI Securities estimates

Company Report

Initiation

Apr 16, 2021

Rating: **BUY**

TP: **HK\$ 45.8**

Analyst: Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (HK\$)	38.60
52WK H/L (HK\$)	68.75/31
Est. share price return	18.96%
Est. dividend yield	0.37%
Est. total returns	19.33%

Source(s): Bloomberg, ABCI Securities estimates

Key data

Issued H-shares (mn)	5,034.67
Total issued shares (mn)	11,246.47
H-share mkt cap (HK\$ mn)	194,338.11
Total mkt cap (HK\$ mn)	434,113.60
ADT since IPO (HK\$mn)	653.93
Major shareholder (%)	
ZHONG SHANSHAN	38.32

Source(s): Bloomberg, the Group

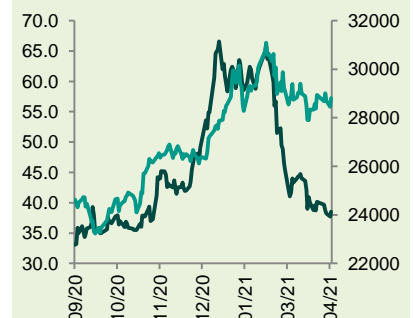
Price performance (%)

	Absolute	Relative*
1-mth	(10.85)	(11.43)
3-mth	(35.23)	(36.98)
6-mth	1.71	(15.97)

* Relative to HSI

Source(s): Bloomberg

Price performance since IPO



— Price (LHS) — HSI Index (RHS)

Source(s): Bloomberg, ABCI Securities

Note: Market data as of Apr 14, 2021

RMB/HKD: 1.1888










Investment highlights

1. Access to quality water sources lays the foundation of reputable brand development

The Group has obtained access to 10 water sources across China since its establishment in 1996. According to F&S, the Group is the only one among the top five PRC packaged drinking water companies that sources all of its packaged drinking water products from natural water sources. The chosen water sources are located in excellent ecological environments and have sufficient water reserves to ensure long-term supply of packaged drinking water products. For details, please refer to Appendix I.

The Group had 15 brands under its portfolio, according to official website. Product categories of the brands include water products, ready-to drink tea products, functional beverage products, and juice beverage products. In terms of revenue contribution, water products have been the biggest revenue contributor (61.0% in FY20) among all product categories.

Exhibit 1: Brand and product portfolio

Product category	Brand Logo	Product Image			
		Product	Individual container volume/weight	Suggested retail price	
Water products		Drinking natural water	380ml to 19L	RMB1.5 to RMB26.0	
		Natural mineral water (with functional sports bottle cap)	400ml and 535ml	RMB3.0	
		Drinking natural water (suitable for infants and young children)	1L	RMB9.0	
		Natural mineral water (glass bottled)	350ml and 750ml	RMB30.0 and RMB45.0	
		Natural mineral water (containing lithium)	535ml	RMB5.0 to RMB7.0	
Ready-to drink tea products		Tea π (茶π)	250ml to 900ml	RMB3.0 to RMB7.0	
		Oriental Leaf (東方樹葉)	335ml and 500ml	RMB4.0 and RMB5.0	
Functional drinks products		Scream (尖叫)	550ml	RMB4.0	
		Victory Vitamin Water (力量帝維他命水)	250ml and 500ml	RMB3.0 and RMB4.5	
Juice beverage products		Farmer's Orchard (農夫果園) (30% juice)	500ml to 1.8L	RMB4.0 to RMB10.0	
		Farmer's Orchard (農夫果園) (50% juice)	250ml to 1.25L	RMB3.0 to RMB10.0	
		Water Soluble C100 (水溶 C100)	250ml and 445ml	RMB3.0 and RMB5.0	
			Nongfu Spring (農夫山泉) NFC juice series	300ml and 900ml	RMB8.0 and RMB21.5
			17.5° juice series	330ml and 950ml	RMB13.9 and RMB29.9
Other products		Tan Bing (炭仸) coffee beverage	270ml	RMB9.9	
		Soda water beverage	410ml	RMB4.0	
		TOT sparkling flavored beverage	380ml	RMB4.0	
		Plant-based yogurt products	135g	RMB9.9	
		17.5° fresh oranges	2.5kg/box to 15kg/box	RMB45 to RMB350	
		17.5° fresh apples	3.3kg/box to 10kg/box	RMB62 to RMB225	
		Rice from northeast China	12kg/box to 25kg/box	RMB186 to RMB290	

Source(s): the Group, ABCI Securities



Exhibit 2: Revenue contribution of product categories (%)

Product category	2018	2019	2020
Water products	57.5	59.7	61.0
Ready-to drink tea products	14.8	13.1	13.5
Functional drinks products	16.2	15.7	12.2
Juice beverage products	9.1	9.6	8.6
Other products	2.4	1.9	4.6

Note: Other products primarily include other beverage products such as coffee beverage, soda water beverage, sparkling flavored beverage and plant-based yogurt products, and agricultural products such as fresh fruits

Source(s): the Group, ABCI Securities

2. A leading player in China's soft beverage market

The Group is among the leading players in the soft beverage market in China. According to F&S, in 2019, the Group's total retail sales value was RMB 62.4bn, the fourth highest with a market share of 6.3%.

Exhibit 3: Top Ten Players in China's Soft Beverage Market, 2019

Companies	Retail sales value (RMB bn)	Market share (%)
Company A	75.9	7.7
Company B	69.5	7.0
Company C	66.7	6.7
Nongfu Spring	62.4	6.3
Company D	32.0	3.2
Company E	28.9	2.9
Company F	26.6	2.7
Company G	23.3	2.4
Company H	18.9	1.9
Company I	17.1	1.7

Note: Total market size was RMB 991.4bn

Source(s): F&S report, ABCI Securities

The Group is the top player in the packaged drinking water market in 2019; its retail sales value ranked first among all players, according to F&S. Meanwhile, the Group was ranked third in the tea beverage market, juice beverage market, and functional beverage market in China in 2019.

Exhibit 4: Top Five Players in China's Packaged Drinking Water Market, 2019

Companies	Retail Sales Value (RMB bn)	Market share (%)
Nongfu Spring	42.2	20.9
Company F	25.5	12.6
Company B	15.7	7.8
Company C	15.1	7.5
Company J	14.8	7.3

Note: Total market size was RMB 201.7bn

Source(s): F&S report, ABCI Securities

Exhibit 5: Top Five Players in China's Tea Beverage Market, 2019

Companies	Retail Sales Value (RMB bn)	Market share (%)
Company C	34.1	43.3
Company G	18.5	23.5
Nongfu Spring	6.2	7.9
Company B	5.1	6.5
Company K	4.2	5.3

Note: Total market size was RMB 78.7bn

Source(s): F&S report, ABCI Securities



Exhibit 6: Top Five Players in China's Juice Beverage Market, 2019

Companies	Retail Sales Value (RMB bn)	Market share (%)
Company A	11.9	8.3
Company C	11.6	8.1
Nongfu Spring	5.4	3.8
Company B	3.9	2.7
Company G	3.2	2.2

Note: Total market size was RMB 143.5bn

Source(s): F&S report, ABCI Securities

Exhibit 7: Top Five Players in China's Functional Beverage Market, 2019

Companies	Retail Sales Value (RMB bn)	Market share (%)
Company D	31.4	28.1
Company L	10.2	9.1
Nongfu Spring	8.2	7.3
Company M	7.5	6.7
Company I	6.2	5.5

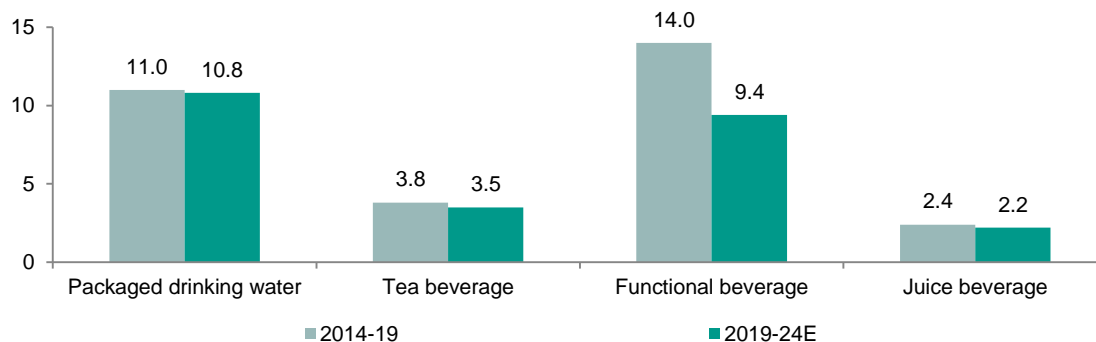
Note: Total market size was RMB 111.9bn

Source(s): F&S report, ABCI Securities

3. Market provides potential for growth

The Group is positioned to capture growth opportunities in the market. According to F&S, the 2019-24E CAGR for the retail sales of packaged drinking water, juice beverage, functional beverage, and tea beverage are expected to be 10.8%, 2.2%, 9.4%, and 3.5%. In 2019, the Group was ranked first in the packaged drinking water segment, and was ranked third in the other segments mentioned above. We believe the Group's leading positions in the two market segments would help boost growth in the future.

Exhibit 8: CAGR growth of different categories of soft beverage (%)



Source(s): F&S, ABCI Securities

4. Extensive sales network

The Group generated revenue mostly from sales to distributors, which accounted for 95.0%, 94.6%, and 94.2% of total revenue in 2017, 2018, and 2019, respectively. As of May 31, 2020, the Group was working with 4,454 distributors, covering all provinces, municipalities and prefecture-level administrative divisions across China.

In addition, the Group has an extensive network of retail points of sale. As of May 31, 2020, the Group's products covered more than 2.43mn retail points of sale, among which ~1.88mn were located in the third-tier cities or below. According to the F&S Report, the retail points of sale the Group serves accounted for approximately 11% of the total retail points of sale in China.

The Group also has been exploring new retail channels, such as vending machines, catering channels and ecommerce channels. As of May 31, 2020, the Group had deployed nearly 62,900



smart retail equipment represented by vending machines in nearly 300 cities across China. The Group has gradually developed teams, information systems, and a delivery service model well-suited to such channels.

5. Strong balance sheet and efficient working capital management

The Group has been able to maintain a low leverage profile. The D/E ratio was at 15.6% as of end-FY20, compared to 10.1% as of end-FY19. This resulted in relatively low finance costs that partly contributed to the Group's high margins and net cash positions in the FY18-20.

The successful IPO in HK in 2020 further boosted its cash position. At an offering price of HK\$21.50 per share and with over-allotment option fully exercised, the Group raised net proceeds of HK\$ 9,376mn, which is intended for internal development. As of end-FY20, the Group's cash position was at RMB 9,118.88mn and net cash position was RMB 6,704.92mn.

Exhibit 9: Use of proceeds

#	Usage	Proportion of proceeds (%)
1	Brand building – increase efforts on product development, marketing & promotion	25.0
2	To purchase equipment such as refrigerators, warm cabinets and smart retail equipment to expand sales capabilities	25.0
3	To increase production capacity at existing production facilities and building new production facilities	20.0
4	To strengthen fundamental capabilities in business operations	10.0
5	To repay bank loans	10.0
6	Working capital and other general corporate purposes	10.0

Source(s): The Group, ABCI Securities

The Group has been relatively efficient in managing its working capital. The Group's receivable turnover days has been maintained at below 5 in FY18-2019 and the FY20 receivable turnover days was ~5 days, showing strong cash collection ability. The Group's inventory turnover days were below 65 in FY18-19 and increased to 69.5 days in FY20, while the payable turnover days was 32.6 in FY20. Cash conversion cycle (CCC) increased from 36.9 days in FY18 to 42.2 days in FY20.

Exhibit 10: Working capital turnover days

	FY18	FY19	FY20
Receivable turnover days	3.7	4.0	5.3
Inventory turnover days	64.0	62.5	69.5
Payable turnover days	31.7	27.8	32.6
Cash conversion cycle	36.0	38.8	42.2

Source(s): The Group, ABCI Securities



Growth and profitability outlook

Revenue CAGR at 17.6% in FY20-23E

We believe the Group would be able to deliver consistent growth with its strong product portfolio and extensive sales network. We expect revenue would increase at 17.6% CAGR in FY20-23E, with revenue from water product segment (the largest revenue contributor) expanding at 18.9% CAGR. Meanwhile, revenue CAGR of ready-to-drink tea product segment, functional drinks product segment, and juice beverage product segment are expected to be 9.1%, 12.3%, and 6.4% in FY20-23E.

Exhibit 11: Revenue growth projections (YoY %)

As of Dec 31	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	17.1	17.3	(4.8)	16.8	17.8	18.2
Water products	16.4	21.8	(2.7)	18.2	19.4	19.0
Ready-to-drink tea products	16.9	3.3	(1.6)	4.3	9.5	13.8
Functional drinks products	13.1	13.8	(26.1)	11.1	11.9	13.8
Juice beverage products	26.4	24.6	(14.4)	6.1	5.9	7.2

Source(s): The Group, ABCI Securities estimates

Rising NPM on better cost efficiency

We expect the FY21E margins to be lower than FY20 mainly due to the absent of social security relief policy, which was implemented by the Chinese government in FY20 amid the COVID-19 pandemic. We project GPM to remain steady at around 57% in FY21E-FY23E. The GPM of water products, the biggest revenue contributor, would increase from 61.0% in FY20 to 63.2% in FY23E. Meanwhile, we expect NPM to reach 23.4% in FY23E, as we expect the Group to improve its SG&A efficiency. We project SG&A/revenue ratio would decrease from 29.9% in FY20 to 29.0% in FY23E.

Exhibit 12: Margin projections (%)

FY ends at Dec 31	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
GPM	53.3	55.4	59.0	57.2	57.6	57.9
Water products	56.5	60.2	61.0	62.0	62.6	63.2
Ready-to drink tea products	58.1	59.7	60.5	61.3	61.9	62.5
Functional drinks products	49.8	50.9	51.4	52.3	52.8	53.3
Juice beverage products	41.1	34.7	35.0	35.6	35.9	36.3
Pretax margin	23.3	27.1	30.5	28.7	29.5	30.9
NPM (to shareholders of the Company)	17.6	20.6	23.1	21.8	22.4	23.4

Source(s): The Group, ABCI Securities estimates



Valuation

DCF-derived TP at HK\$ 45.8

Assumptions in our DCF model include:

- A beta of 1.59;
- A risk-free rate of 3.17%;
- An expected market return of 12.28%;
- Terminal growth rate at 3%;
- Debt-to-asset ratio of 15.6%

Based on our DCF model, we set the TP at HK\$ 45.8, which represents 74.42x and 61.44x 21E/22E P/E or 23.05x/18.25x 21E/22E P/B.

Peer valuation analysis

The Group current does not have any comparable in the HK or China market that are in the same subsegment as the Group. Therefore, we selected companies that have are most comparable to the Group for comparison. We also include some of the international leading players in the comparison in order to provide a more holistic view of the overall market valuation. As of Apr 14, 2021, the average 21/22E P/E of the comparable peers were 25.02x/22.08x. The HK and China peers were trading at 26.46x/22.95x 21E/22E average P/E. Compared to the peers, the Group is trading at a higher valuation level, which we believe is due to its leading position and its unique positioning in the market.

Exhibit 13: Peer valuation comparison

Ticker	ENG name	P/E(x)		P/B (x)		Yield (%)		ROAA (%)		ROAE (%)	
		21E	22E	21E	22E	21E	22E	21E	22E	21E	22E
322 HK	Tingyi	16.86	15.47	3.14	3.02	5.67	6.16	6.36	6.66	18.21	19.20
220 HK	Uni-President China	20.51	18.41	2.50	2.46	4.83	5.41	7.53	8.42	12.21	13.48
2319 HK	Mengniu	29.01	24.29	4.07	3.58	0.86	1.03	6.26	7.01	14.55	15.41
600887 CH	Yili	32.98	27.85	8.34	7.47	2.08	2.40	11.65	12.57	25.90	27.48
603711 CH	Xiangpiaopiao	24.42	21.51	3.07	2.77	N/A	N/A	8.80	8.50	11.98	13.13
600597 CH	Bright Dairy	34.95	30.00	3.41	0.03	0.86	1.00	3.57	3.93	9.92	10.66
KO US	Coca Cola	24.87	22.92	12.31	11.87	3.15	3.26	10.29	11.02	47.75	56.50
PEP US	Pepsi	23.67	21.87	12.10	10.93	2.96	3.15	8.77	9.28	57.23	55.73
BN FP	Danone	18.14	16.40	2.22	2.12	3.36	3.58	4.80	5.62	11.91	12.65
9633 HK	Nongfu Spring	62.71	51.77	27.44	21.74	0.34	0.41	21.05	21.11	33.96	33.16
<u>Average</u>		<u>25.02</u>	<u>22.08</u>	<u>5.68</u>	<u>4.91</u>	<u>3.00</u>	<u>3.28</u>	<u>7.50</u>	<u>8.03</u>	<u>23.29</u>	<u>24.91</u>
<u>Average – HK&China peers</u>		<u>26.46</u>	<u>22.95</u>	<u>4.08</u>	<u>3.22</u>	<u>2.89</u>	<u>3.24</u>	<u>7.37</u>	<u>7.85</u>	<u>15.45</u>	<u>16.53</u>

Note: Data as of closing on Apr 14, 2021

Source(s): Bloomberg, ABCI Securities estimates



Risk factors

Changing consumer demands

The Group is facing rapidly changing consumer demands that are determined by spending patterns, preferences & tastes, disposable income, and perception of the brand. If the Group is not able to adapt to the consumer demands, it may see revenue growth decline.

Pandemic risk

COVID-19 outbreak had negative impacts on the Group's business, as the Group's points of sales decreased, production saw disruption, consumers' mobility declined, and third-party logistics were interrupted. Resurgence of the outbreak would disrupt the Group's recovery.

Limitation of water sources and product quality risk

The Group current draws water from natural resources. It is uncertain whether the water supply from the sources would be contaminated or reduce in the future. If the Group's existing water sources cannot provide a sufficient supply of quality water, and the Group cannot secure new water sources, production would be disrupted and product quality would decline. In addition, if the Group could not maintain a rigorous quality control procedure over the production process, it may suffer from decline in sales or reputational damage.

High concentration of revenue contribution from a single product category

In FY20, the Group had 61.0% of revenue generated from packaged drinking water products. High reliance on a single product category makes the Group vulnerable to changes in the product category.

Exhibit 14: Revenue contribution by product category (%)

As of Dec 31	FY18	FY19	FY20
Water products	57.5	59.7	61.0
Ready-to-drink tea beverage products	14.8	13.1	13.5
Functional beverage products	16.2	15.7	12.2
Juice beverage products	9.1	9.6	8.6
Other products	2.4	1.9	4.6

Source(s): The Group, ABCI Securities

Cost risk

The Group's margins are sensitive to changes in raw material prices. According to the Group, for 2019, a 15% increase in PET costs would lead to a RMB 507mn (3.8%) decline in gross profit.

Exhibit 14: Impact of hypothetical changes in PET costs

Change in PET costs	(15%)	(10%)	(5%)	0%	5%	10%	15%
<i>Change in gross profit (RMB mn)</i>							
2017	334	223	111	0	(111)	(223)	(334)
2018	457	304	145	0	(145)	(304)	(457)
2019	507	338	169	0	(169)	(338)	(507)

Source(s): The Group, ABCI Securities



Financial statement of the Group

Consolidated income statement

FY ends at Dec 31 (RMB mn)	FY18A	FY19E	FY20A	FY21E	FY22E	FY23E
Revenue	20,475	24,021	22,877	26,726	31,472	37,195
Cost of sales	(9,554)	(10,710)	(9,369)	(11,434)	(13,354)	(15,642)
Gross profit	10,921	13,311	13,508	15,292	18,118	21,552
Selling expenses	(5,218)	(5,816)	(5,511)	(6,442)	(7,520)	(8,812)
Admin expenses	(1,065)	(1,383)	(1,324)	(1,447)	(1,708)	(1,980)
Others net income/gain	129	403	392	358	496	788
Net finance costs	(4)	(16)	(79)	(86)	(91)	(46)
Pretax profit	4,763	6,499	6,986	7,676	9,296	11,503
Tax	(1,152)	(1,545)	(1,709)	(1,852)	(2,242)	(2,788)
Net profit	3,612	4,954	5,277	5,823	7,054	8,715
- Owners	3,606	4,949	5,277	5,823	7,054	8,715
- MI	6	6	0	0	0	0
Dividend	N/A	N/A	1,912	1,747	2,116	2,614
EPS (RMB)						
- Basic	0.33	0.46	0.48	0.52	0.63	0.77
- Diluted	0.33	0.46	0.48	0.52	0.63	0.77
DPS (HK\$)	N/A	N/A	0.17	0.16	0.19	0.23

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ends at Dec 31 (RMB mn)	FY18A	FY19E	FY20A	FY21E	FY22E	FY23E
Bank balances and cash	1,764	1,083	9,119	6,382	12,384	13,019
Prepayments, other receivables and other assets	1,165	1,021	910	966	980	984
Trade and bills receivables	223	306	358	406	473	578
Inventories	1,906	1,762	1,805	2,454	2,425	3,172
Others	3,783	200	0	0	0	0
Current assets	8,841	4,372	12,192	10,207	16,263	17,752
PP&E	11,089	12,314	12,592	17,705	19,470	21,757
Right-of-use assets	600	656	695	959	1,056	1,186
Intangible assets	64	60	58	90	94	105
Others	357	394	324	499	474	667
Non-current assets	12,109	13,424	13,668	19,254	21,094	23,715
Total assets	20,950	17,796	25,859	29,460	37,357	41,468
Trade and bills payables	837	791	882	1,009	1,288	1,350
Other payables and accruals	2,604	2,855	3,322	3,361	4,944	4,492
Contract liabilities	1,996	2,078	2,247	2,545	3,252	3,508
ST bank borrowing	0	1,000	2,414	2,414	2,104	301
Others	726	717	960	817	1,346	1,316
Current liabilities	6,163	7,441	9,825	10,146	12,933	10,967
Deferred income	209	248	267	266	286	273
Deferred tax liabilities	145	195	234	202	343	324
Lease liabilities	17	30	41	43	53	61
Non-current liabilities	371	473	542	511	682	658
Shareholders' equity	14,372	9,882	15,492	18,804	23,742	29,842
MI	44	0	0	0	0	0
Total equity	14,416	9,882	15,492	18,804	23,742	29,842
Total liabilities and equity	20,950	17,796	25,859	29,460	37,357	41,468

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Dec 31 (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E
Profit before tax	4,763	6,499	6,986	7,676	9,296	11,503
Depreciation and amortization	1,395	1,734	1,965	2,279	2,686	3,112
Change in working capital	(335)	647	744	(289)	2,515	(988)
Others	(1,193)	(1,407)	(1,266)	(1,821)	(2,114)	(2,687)
Cash flow from operating activities	4,630	7,472	8,429	7,845	12,383	10,939
PP&E and right-of-use assets	(3,360)	(2,929)	(315)	(5,379)	(1,861)	(2,417)
Change in intangible assets	(43)	(8)	2	(32)	(5)	(11)
Others	(270)	3,581	158	144	157	153
Cash flow from investing activities	(3,674)	643	(155)	(5,267)	(1,708)	(2,275)
Change in borrowing	(50)	1,000	0	0	0	0
Net proceeds from IPO	0	0	7,876	0	0	0
Others	(407)	(9,697)	(1,959)	(1,794)	451	835
Cash flow from financing activities	(457)	(8,697)	5,917	(1,794)	451	835
Net change in cash	499	(582)	5,594	(1,915)	4,203	444
ForEx Impact	2	1	6	(1)	(1)	0
Cash and cash equivalent - end	1,364	783	6,383	4,467	8,669	9,113

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ends at Dec 31	FY18A	FY19E	FY20A	FY21E	FY22E	FY23E
Growth (YoY %)						
Revenue	17.1	17.3	(4.8)	16.8	17.8	18.2
Water products	16.4	21.8	(2.7)	18.2	19.4	19.0
Ready-to drink tea products	16.9	3.3	(1.6)	4.3	9.5	13.8
Functional drinks products	13.1	13.8	(26.1)	11.1	11.9	13.8
Juice beverage products	26.4	24.6	(14.4)	6.1	5.9	7.2
Gross profit	11.3	21.9	1.5	13.2	18.5	19.0
Pretax profit	7.4	36.4	7.5	9.9	21.1	23.7
Net profit (to shareholders of the Company)	6.7	37.2	6.6	10.3	21.1	23.6
Profitability ratios (%)						
GPM	53.3	55.4	59.0	57.2	57.6	57.9
Water products	56.5	60.2	61.0	62.0	62.6	63.2
Ready-to drink tea products	58.1	59.7	60.5	61.3	61.9	62.5
Functional drinks products	49.8	50.9	51.4	52.3	52.8	53.3
Juice beverage products	41.1	34.7	35.0	35.6	35.9	36.3
Pretax margin	23.3	27.1	30.5	28.7	29.5	30.9
NPM (to shareholders of the Company)	17.6	20.6	23.1	21.8	22.4	23.4
Return ratios (%)						
ROAA	19.2	25.6	24.2	21.1	21.1	22.1
ROAE	28.2	40.8	41.6	34.0	33.2	32.5
Liquidity ratio (x)						
Current ratio	1.43	0.59	1.24	1.01	1.26	1.62
Quick ratio	0.94	0.35	1.06	0.76	1.07	1.33
Cash ratio	0.29	0.15	0.93	0.63	0.96	1.19
Working capital turnover (days)						
Receivable turnover	3.7	4.0	5.3	5.2	5.1	5.2
Inventory turnover	64.0	62.5	69.5	68.0	66.7	65.3
Payable turnover	31.7	27.8	32.6	30.2	31.4	30.8
Cash conversion cycle	36.0	38.8	42.2	43.0	40.4	39.7
Leverage ratios (%)						
Total debt to Equity	0.0	10.1	15.6	12.8	8.9	1.0
Total debt to Total assets	0.0	5.6	9.3	8.2	5.6	0.7
Net debt/(cash) to Equity	(12.2)	(0.8)	(43.3)	(21.1)	(43.3)	(42.6)
Net debt/(cash) to Total assets	(8.4)	(0.5)	(25.9)	(13.5)	(27.5)	(30.7)

Source(s): The Group, ABCI Securities estimates



Appendix I: Water sources the Group has access to

Water source	Region	Type	Features
Thousand-island Lake, Zhejiang Province (浙江千島湖)	East China	Deep lake water	The water is sourced from Thousand-island Lake, which has a watershed area of 573 sq. km. ⁽²⁾ and a water reserve of 17.84 billion tons ⁽³⁾ . Thousand-island Lake is named as the “most elegant water in China” (天下第一秀水).
Mount Changbai, Jilin Province (吉林長白山)	Northeast China	Mineral water and artesian spring water	The water is sourced from Mount Changbai. The forest ecosystem of Mount Changbai is a classic one in East Asia. Mount Changbai has a total area of 1,964 sq. km. and a forest area ratio of 88%. The annual precipitation in Mount Changbai is between 700 and 1,400 millimeters ⁽⁴⁾ . The annual water outflow of the artesian springs discovered in Jingyu County and Fusong County, where the Group’s production plants are located, is 39.6 million tons ⁽⁵⁾ and 47.4 million tons ⁽⁵⁾ , respectively, and the average annual reserve of water resources in Linjiang City, where the Group’s production base is located, is 1.263 billion tons ⁽⁵⁾ .
Danjiangkou, Hubei Province (湖北丹江口)	Central China	Deep reservoir water	The water is sourced from Danjiangkou reservoir, which is the water source of the middle route of the South-North Water Transfer Project of China, and has a watershed area of 745 sq. km. ⁽⁶⁾ and a water reserve of 29.05 billion tons ⁽⁶⁾ .
Wanlv Lake, Guangdong Province (廣東萬綠湖)	South China	Deep lake water	The water is sourced from Wanlv Lake, which is the largest lake in South China, and has a watershed area of 370 sq. km. ⁽⁷⁾ and a water reserve of 13.9 billion tons ⁽⁷⁾ .
Manas of Mount Tianshan, Xinjiang Uygur Autonomous Region (新疆天山瑪納斯)	Northwest China	Deep underground water	The water is sourced from the snow meltwater in the middle part of the glacier in north Mount Tianshan. We take water from the river bed which is 170 meters beneath the ground in Manas, which has an annual runoff of 1.5 billion tons ⁽⁸⁾ and is one of the areas with the most abundant water resource in Xinjiang.
Mount Emei, Sichuan Province (四川峨眉山)	Southwest China	Mountain spring water	The water is sourced from Mount Emei, which is a recognized quality water source, and has a forest area ratio of 87% and an annual average precipitation of 1,922 millimeters ⁽⁹⁾ . The average annual total availability of water resources in Mount Emei, where the Group’s production plants are located, is 1.448 billion tons ⁽¹⁰⁾ .
Mount Taibai, Shaanxi Province (陝西太白山)	Northwest China	Mountain spring water	The water is sourced from Mount Taibai, which is the highest mountain in the east of the Tibetan Plateau and is snow-capped all year round. Mount Taibai has a forest area ratio of 94.3% and an annual accumulated precipitation of 247 million tons ⁽¹¹⁾ .
Mount Wuling, Guizhou Province (貴州武陵山)	Southwest China	Mountain spring water	The water is sourced from Mount Wuling, the highest peak of which is located in Tongren City, Guizhou Province. Mount Wuling is the core area of the subtropical forest system in China and an important water conservation area in the Yangtze River Basin. The average annual total surface water resources in Bijiang District and Jiangkou County, where the Group’s production plants are located, are 0.74 billion tons ⁽¹²⁾ and 1.7 billion tons ⁽¹²⁾ , respectively.
Mount Wuling, Hebei Province (河北霧靈山)	North China	Mountain spring water	The water is sourced from Mount Wuling, which is the main peak of the Yan Mountains and has a forest area ratio of 93%. Mount Wuling reserves a large amount of high-quality water that makes it an important water source of the Beijing-Tianjin region. The average annual total surface water resources and groundwater resources in Xinglong County, where the Group’s production plants are located, are 0.74 billion tons ⁽¹³⁾ and 0.26 billion tons ⁽¹³⁾ , respectively.
Greater Khingan, Heilongjiang Province (黑龍江大興安嶺)	Northeast China	Mineral water	The water is sourced from Mohe, Greater Khingan, which lies in the north of Greater Khingan mountain range, the northernmost area of China, and has a forest area ratio of 92% and an underground water reserve of 578 million tons ⁽¹⁴⁾ .

Note: 1) One ton of water equals to one cubic meter of water.

2) According to the written confirmation issued in May 2020 by the local governmental authority.

3) According to the statistics issued in June 2019 on the website of the local governmental authority.

4) According to the statistics issued in December 2016 on the website of the local governmental authority.

5) According to the written confirmation issued in July 2020 by the local governmental authorities.

6) According to the statistics issued in March 2016 on the website of the local governmental authority.

7) According to the written confirmation issued in August 2018 by the local governmental authority.

8) According to the statistics issued in June 2019 on the website of the local governmental authority.

9) According to the statistics issued in October 2017 on the website of the local governmental authority.

10) According to the written confirmation issued in July 2020 by the local governmental authority.

11) According to the statistics issued in September 2017 on the website of the local governmental authority.

12) According to the written confirmation issued in July 2020 by the local governmental authorities.

13) According to the report issued in September 2016 by the local governmental authority.

14) According to the report issued in September 2017 by the local governmental authority.

Source(s): the Group, ABCI Securities



Appendix II: History and milestones of the Group

Year	Event
1996	Xin'an River Yangshengtang Drinking Water, the Company's predecessor, was established
1997	The Company's first packaged drinking water product "Nongfu Spring (農夫山泉)" with water sourced from Zhejiang Thousand-Island Lake was launched
2001	The Company was converted into a joint stock limited company with its name changed to "Nongfu Spring Co., Ltd. (農夫山泉股份有限公司)."
2003	The Group's first juice beverage product "Farmer's Orchard (農夫果園)" was launched
2004	The Group's first functional beverage product "Scream (尖叫)" was launched
2011	The Group's first tea beverage product "Oriental Leaf (東方樹葉)" was launched The Group's first aseptic production line was introduced
2014	The Group's first fresh fruit product "17.5° fresh oranges" was launched
2015	The Group launched natural mineral water product "Nongfu Spring (農夫山泉)" with water sourced from Moya Spring in Changbai Mountain in Jilin
2019	The Group's first coffee product "Tan Bing (炭火)" and first plant-based yogurt product were launched

Source(s): The Group, ABCI Securities



Appendix III: Management profile

Name	Age	Position	Responsibilities	Date of joining the Group
Mr. Zhong Shanshan(鍾睒睒)	65	Founder, Chairman of the Board, Executive Director and General Manager	<ul style="list-style-type: none"> ➢ Responsible for overall development strategies, business plans and major operational decisions and direct management of brands, sales and human resources ➢ Chairman of the Nomination Committee ➢ Member of the Remuneration Committee 	September 1996 (when The Company was founded)
Mr. Guo Zhen(郭振)	62	Executive Director, Deputy General Manager and deputy general manager of the production and operation center	<ul style="list-style-type: none"> ➢ Responsible for overall production and operation 	June 2003
Mr. Zhou Li(周力)	48	Executive Director and Deputy General Manager	<ul style="list-style-type: none"> ➢ Responsible for product research and development, quality management, technology-related regulations and legal affairs 	April 2008
Ms. Zhou Zhenhua(周震華)	43	Executive Director and Chief Financial Officer	<ul style="list-style-type: none"> ➢ Responsible for financial matters and external investment, and assisting the General Manager in managing overall operations as an assistant to the General Manager 	July 2007
Mr. Liao Yuan(廖原)	50	Executive Director	<ul style="list-style-type: none"> ➢ Responsible for management of engineering and equipment 	April 2000
Mr. Zhong Shu Zi	32	Non-executive Director	<ul style="list-style-type: none"> ➢ Providing advice on business plans, major decisions and investment activities ➢ Member of the Audit Committee ➢ Supervising and providing independent judgement to the Board 	January 2014
Mr. Stanley Yi Chang	62	Independent non-executive Director	<ul style="list-style-type: none"> ➢ Supervising and providing independent judgement to the Board ➢ Member of the Nomination Committee 	March 2020
Mr. Yang, Lei Bob(楊磊)	53	Independent non-executive Director	<ul style="list-style-type: none"> ➢ Supervising and providing independent judgement to the Board ➢ Member of the Nomination Committee ➢ Member of the Remuneration Committee ➢ Supervising and providing independent judgement to the Board 	September 2019
Mr. Lu Yuan(呂源)	65	Independent Non-executive Director	<ul style="list-style-type: none"> ➢ Chairman of the Remuneration Committee ➢ Member of the Nomination Committee 	September 2019

Note: Mr. Zhong Shu Zi is the son of Mr. Zhong Shanshan, the founder of the Company

Source(s): The Group's Prospectus



Disclosures

Analyst Certification

I, PAN Hongxing, Paul, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate ($\sim 10\%$)
Hold	- Market return ($\sim 10\%$) \leq Stock return $<$ Market return rate ($\sim 10\%$)
Sell	Stock return $<$ - Market return ($\sim 10\%$)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-20 CAGR at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: 852) 2868 2183